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MINNESOTA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM AND COOPERATIVE AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

MINNESOTA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM AND COOPERATIVE AGREEMENT

MARCH 13, 1989

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MINNESOTA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM AND COOPERATIVE AGREEMENT

MONDAY, MARCH 13, 1989

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Minneapolis, MN.

The Committee met pursuant to notice at 1:55 p.m. in the County Commissioner Board Room, 24th Floor, Hennepin County Government Center, 300 S. Sixth Street, Minneapolis, MN., Hon. Rudy Boschwitz presiding.

Senator BOSCHWITZ. Todd Otis and Don Frank, are they here and ready to go? Why don't you—I understand that you are in session. I'm a little bit late and you need to get back to the session. So we'll forego my opening statement for the moment and just go right to you and then we'll go from there.

Representative OTIS. Thank you very much, Senator Boschwitz. And thank you for convening this meeting. This gives us all an opportunity to think about an important issue related to small business. I have a number of copies of these remarks, where would you like me to drop them off?

Senator BOSCHWITZ. If you will give me and the reporter one for the record. Do we have a staff person here that can pass them around? You're welcome to present the entire statement if you wish or if you prefer you can summarize your statement and it will be put in the record in its entirety.

STATEMENT OF HON. TODD OTIS, STATE REPRESENTATIVE, MINNESOTA HOUSE OF REPRESENTATIVES

Mr. OTIS. Thank you, Senator. For the record my name is Todd Otis. I'm a State Representative from southwest Minneapolis District 59B. I serve as the Chairman of the House Economic Development Committee in the Minnesota House of Representatives. I thank Senator Boschwitz for his interest in the Small Business Administration's SBDC Program and for arranging this hearing today.

A brief history, as you know the College of St. Thomas decided last year not to reapply to serve as the host institution for the SBDC's. Governor Perpich upon hearing that, recommended that the Greater Minnesota Corporation be the host. That the baton has been passed to GMC who is formally hosting the program. In the intervening weeks, Senator Frank and I decided that we should at least raise the issue as to whether the Department of Trade and

Economic Development might be a more appropriate host organization, basically because our feeling was that the Greater Minnesota Corporation is primarily focusing on applied research and bringing that applied research to the marketplace. And we had never contemplated that it be a provider of technical assistance for small business instances in the first place.

They have been very gracious to accept that responsibility and as you know, the rules of the Small Business Administration are such that if you stop one day of having a host organization, the benefits to the individual State that has that discontinuity are cut dramatically. Our feeling is that the most appropriate host is the Department of Trade and Economic Development. And the department is consistent with the role of SBDC's. The department is the home of general financial and technical assistance efforts to small businesses in Minnesota. The commissioner of the department had started undertaking ways and means of promoting and encouraging the development of business within the State as well as developing effective business information services to assist Minnesota businesses.

The DTED Small Business Assistant office annually responds to in excess of 10,000 requests for assistance and publishes many documents to facilitate the development and expansion of the small business and medium size business in Minnesota. Now, their "Guide to Starting a Business in Minnesota" is recognized as one of the best in the country. The office also sponsors many seminars for the small business community both on general interests as well as specialized topics. These efforts make DTED the logical home for the SBDC Program. Let me interject that at no point to my knowledge did the department ask, once the GMC decision had been made, did the department try to end-run anybody.

As far as I'm concerned the initiative for putting it in DTED is on the shoulders of Senator Frank and myself. In fact the department and the SBDC's already had a strong cooperative spirit as evidenced by numerous referrals between the two organizations. If the DTED served as the host institution that would further increase the coordination and cooperation between these two entities thereby enhancing an integrated development policy the State legislature envisions in Minnesota.

Currently we are trying to improve the accessibility of that department even more by instituting a 1-800 number and an integrated data and referral system. We feel that that would only enhance both DTED and SBDC's, that effort to try to get all the actors and technical providers better coordinated and working together. We believe that it's more appropriate for it to be in a public body than a private setting respecting that this is a debatable issue.

For sure the relationship between SBA and the College of St. Thomas was a rewarding one but it had difficulties. And most areas of the State can easily become saturated with development assistance from private, educational, and public providers of services. We feel a State entity makes a great deal of sense and other States agree with the strategy of managing SBDC's through public entities. Of the 53 host institutes from the 46 States with SBDC's, 49 are State higher education institutions or State agencies. No

State currently has a private non-profit organization serving as a host institution and only four use private colleges.

Senator BOSCHWITZ. How many of those 49 are the DTED's and how many are colleges?

Mr. OTIS. Senator, I would want to defer either to Charles Schaffer or someone who can deal with that.

Senator BOSCHWITZ. They can answer it, not now, you continue. They can answer it—they are also going to be witnesses? They are. The witness list looks just about as long as the audience, so I figured that everyone is going to testify. Answer that question in do course.

Mr. OTIS. Last month, Governor Perpich concurred with Senator Frank and my recommendation in requesting that the SBA approve DTED as the host institution for the SBDC's. The Department of the Greater Minnesota Corporation, local SBA officials, Senator Frank and I, have agreed that the department should submit a reapplication to serve as the host institution for the remainder of this year, a procedure currently permitted by Federal guidelines. However, the national SBA offices have refused to allow the reapplication.

In my opinion it would be in the best interests of the SBDC Program if the reapplication was approved as soon as possible. However, if this does not happen, we're intending to submit language for consideration in each economic development committee that would allow the GMC to contract with the department to provide management services this year with the hope that the program could formally be transferred after the end of the year.

As to your request for views on the operation of SBDC's, are other people here who can speak more knowledgably than I can about that. My hope is though that when and if this transfer is consumated, that the department would go through a period of careful scrutiny of the program and the various participants in order to make sure that each and every one is working as well as possible.

In summary I believe the small business development are an important part of overall economic development strategy of Minnesota. Their role would best serve the overall economic development plan in Minnesota to the Department of Trade and Economic Development acted as their host institution. I very much appreciate the opportunity to testify and would be happy to respond.

[The prepared statement of Representative Otis follows:]

Statement of Representative Todd Otis before the United States Senate Small Business Committee

March 13, 1989

Members of the Committee, my name is Todd Otis, and I am a state representative from District 59B in Minneapolis. I currently serve as the Chair of the Economic Development Committee in the Minnesota House of Representatives. I thank Senator Boschwitz for his interest in the Small Business Administration's SBDC program, and for arranging this hearing today.

As you know, the College of St. Thomas decided last year not to re-apply to serve as the host institution for the Small Business Development Centers in Minnesota. Governor Perpich, upon hearing the wishes of the College of St. Thomas, requested that the Greater Minnesota Corporation, a public corporation created in 1987 for the purpose of fostering economic development in rural Minnesota, assume the responsibility of serving as host institution for 1989. After discussions with officials of the Small Business Administration, the Greater Minnesota Corporation, the Minnesota Department of Trade and Economic Development and fellow legislators, State Senator Don Frank and I recommended that the Governor reconsider this decision, and instead ask the Department of Trade and Economic Development to manage the program during 1989. I feel there are several reasons for concluding that the Department is the logical home of the Centers.

First, the functions carried out by the Small Business Development Centers are not consistent with the envisioned role of the Greater Minnesota Corporation. The purpose of the GMC is to foster economic growth by assisting individuals, organizations and businesses with technology transfer and applied research. The GMC's focus is intended to be narrow, so they may dedicate the maximum possible resources to the new products, services and production processes necessary to bring applied research to the marketplace. If the GMC's role is expanded to include general business assistance, we risk both duplicating services currently provided through other mechanisms in Minnesota, as well as depriving our state of the unique benefits the GMC is expected to generate. The Greater Minnesota Corporation is an important actor in long-term economic development in Minnesota; they need to be left to carry out their specific mission.

On the other hand, the functions of the Department of Trade and Economic Development (DTED) are consistent with the role of the SBDCs. DTED is the home of general financial and technical assistance efforts for small businesses in Minnesota. The Commissioner of the Department is charged with undertaking ways and means of promoting and encouraging the development of business within the state, as well as developing an effective business information service to assist Minnesota's businesses. DTED's Small Business Assistance Office annually responds to in excess of 10,000 requests for assistance, and publishes numerous documents to facilitate the development and expansion of small and mid-sized businesses. The "Guide to Starting a Business in Minnesota" is recognized as one of the leading small business publications in the

nation. The Office also sponsors numerous seminars for the small business community, both on general business interests as well as specialized topics. These efforts make DTED the logical home for the Small Business Development Centers.

In fact, the Department and the SBDCs already have a strong cooperative spirit, as evidenced by numerous referrals between the two organizations, the use by SBDCs of DTED's major business assistance publications and their joint sponsorship of a number of business workshops and seminars. If DTED served as the host institution, it would further increase the coordination and cooperation between these two entities, thereby enhancing the integrated development policy the State Legislature envisions for Minnesota.

For example, legislation is currently making its way through the House and Senate which would improve the public's access to business information by creating a comprehensive business information referral system within DTED. A Small Business Development Center could assist this effort by compiling information from its region on programs currently available through public and private assistance providers, and serve as local access points to this referral service. Such integration of efforts makes the proposed arrangement between DTED and the SBA extremely attractive.

Some observers have argued that the SBDCs are best managed within a private setting. The relationship between the SBA and the College of St. Thomas was a rewarding one, but was not without flaws. A private

host institution means that the SBDCs are not part of a coordinated state economic development plan. Areas of the state can easily become saturated with development assistance from private, educational and public providers of services; state management of the program better guarantees that the SBDC's services are provided in areas which need basic assistance services.

In addition, when SBDC services in parts of the state are inadequate, or lack sufficient funding, DTED has the expertise and financial resources to react to these needs. The College of St. Thomas, the Greater Minnesota Corporation and other private or semiprivate entities do not have an adequate combination of both technical and financial resources to respond properly to these problems.

Other states agree with the strategy of managing SBDCs through public entities. Of the 53 host institutes in the 46 states with SBDCs, 49 are state higher education institutions or state agencies. No state currently has a private, nonprofit organization serving as host institution; only four use private colleges. In discussions with local SBA representatives, they have indicated that the national office prefers the host institution be part of state government.

Last month, Governor Perpich concurred with Senator Frank's and my recommendation, and requested that the SBA approve DTED as the host institution for the Small Business Development Centers. The Department, the Greater Minnesota Corporation, local SBA officials, Senator Frank and I have agreed that the Department should submit a re-application to

serve as host institution for the remainder of this year, a procedure currently permitted by federal guidelines. However, the national SBA offices has refused to allow the re-application. In my opinion, it would in the best interest of the SBDC program if the re-application was approved as soon as possible. However, if this does not happen, I intend to submit language for consideration by the House Economic Development Committee which would allow the GMC to contract with the Department to provide these management services. Under either scenario, it is crucial to developing the best possible economic development program in Minnesota that DTED become the host SBDC institution as soon as is practical.

You have also asked that I offer views on the operation of the SBDCs. I could not and will not comment on the successes and failures of individual SBDCs. However, I will observe that the Department of Trade and Economic Development has the managers who could best evaluate the operation of the Centers during the next year. Bob de la Vega, Assistant Commissioner in charge of the Business Promotion & Marketing Division and Charles Schaffer, Director of the Small Business Assistance Office, each have substantial expertise in designing and assessing business assistance programs. Under their leadership, SBDCs will undergo assessments to determine their success in their serving customers' needs, along with how they fit into the assistance delivery structure within the state.

In summary, I believe that the Small Business Development Centers are an important part of the overall economic development strategy of

Minnesota. Their role would best serve the overall economic development plan of Minnesota if the Department of Trade and Economic Development acted as their host institution. I appreciate the opportunity to discuss this issue with you, and I would be happy to answer any questions.

Senator BOSCHWITZ. Well, Representative Otis, you did good work in getting the SBDC into a better agency in my judgment. And you say here that you were convincing to the Governor, and I understand that you were indeed very convincing. Its too bad it wasn't opened up to more debating for it than occurred, but nevertheless I think that some progress was made and I quite agree with your statement. And I think that the small business community will be better served for the reasons that you have given. I thank you for coming over. Is Senator Frank here as well?

Mr. OTIS. I don't believe he is, they go into at 2:00, Senator, so he may not—but thank you very much.

Senator BOSCHWITZ. I appreciate your coming particularly when you're here in session and making your statement. And you hate to say nice things about Democrats but you did good work in this particular case and I want you to know it's appreciated. As we can cooperate together in this matter, in the future, I hope you'll call on me or Peter Coyle who is my chief of staff on the Small Business Committee and I appreciate your taking time to come over to testify.

Mr. OTIS. Thank you very much.

Senator BOSCHWITZ. Thank you very much. We'll ask Mr. Edward—it is my understanding Dr. Fredrickson, that you need to go back to St. Thomas for a meeting, so why don't you come up. You are going to miss my opening statement as well, it's becoming a matter of practice. It may become a closing statement.

Dr. FREDRICKSON. Thank you, Senator Boschwitz, for allowing me to speak early in the sequence.

Senator BOSCHWITZ. Anybody else who has a time restriction should just let staff know that.

STATEMENT OF DR. THEODORE FREDRICKSON, COLLEGE OF ST. THOMAS, CHAIR, DEPARTMENT OF BUSINESS ADMINISTRATION

Dr. FREDRICKSON. A copy of my statement, which is very short; has been distributed to members of the audience. As you will see I and the College of St. Thomas agree with Representative Todd Otis's statement. I was asked to discuss who we support as the new host institution for the SBDC. As I have implied, we would like to see it go to the Department of Trade and Economic Development. I was also asked to share with you why the College of St. Thomas no longer wanted to be the host institution. On the prepared statement, I have listed four general points:

1. The College's annual cost of supporting the State office was $55,000 to $70,000 per year.

2. The college and our SBDC administration was unable to convince legislature and other state officials that the state wide SBDC system deserved State funding as is the case in most States.

3. The college received little positive publicity or public support for administering the program, but it often received criticism.

4. The college decided it could better make use of those funds to help support our other small business efforts at the college which more directly deliver programs to our clients. These include our highly successful Small Business Institute Program which provides consulting teams for over 100 clients per year in Minnesota, it's re-

gional SBDC headed by Bill Connelly, and its Endowed Chair in Small Business and Entrepreneurship, headed by Mr. Daryl Erdman.

So, it is very much a decision to redirect those funds into some of our other small business programs. Therefore, we very much would like to see the host institution become the Department of Trade and Economic Development.

Senator BOSCHWITZ. I'm very sorry that the SBDC will no longer be focused at St. Thomas. This still would be a subcenter?

Dr. FREDRICKSON. That's correct. We still have a regional center down at the Enterprise Center location in St. Paul.

Senator BOSCHWITZ. I thought it was quite successful at St. Thomas. I understand that you have had problems associated with it, and hopefully they will be better at its new site, but it is not clear to me they will. I'm a great admirer of both your university and your business programs, and also the administration of your university, so that I'm sorry to see it leave. I think that Representative Otis did good work in getting it out of the GMC, but as I understand it most States have the site in a college or university and not in the State government. I think it operates a little bit easier that way. But in any case, we have to make some progress. I'm sorry that St. Thomas is not going to be the lead school any further, but perhaps we can do something together in the Small Business area in the future.

I'll have some other programs. And we invite you to come to us and seek our assistance in getting whatever we can give or do give, because my position with the Small Business Committee has been enhanced as of late, and my relationship with the new SBA director is also a very strong one.

So we thank you for coming and get on to your meeting and say hello to the Monsignor.

Dr. FREDRICKSON. I will, and thank you sir.

[The prepared statement of Dr. Fredrickson follows:]

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COLLEGE OF
St.Thomas

Business Administration
612-647-5650

March 13, 1989

SMALL BUSINESS DEVELOPMENT CENTER STATE OFFICE

The College of St. Thomas supports the Department of Trade and Economic Development as the new host institution for administering the cooperative agreement with the Small Business Administration. The College of St. Thomas's Regional SBDC Center and its director, Mr. William Connelly, look forward to working with the Department of Trade and Economic Development in carrying out its activities of counseling and educational programming for metro area small businesses.

As I was asked to state why the College of St. Thomas decided not to continue its sponsorship of the SBDC State Office located in Chaska, I have simply listed the reasons below:

1. The College's annual cost of supporting the State Office was $55,000 - $70,000.

2. The College and our SBDC administration was unable to convince legislators and other state officials that the statewide SBDC system deserved state funding as is the case in most other states.

3. The College received little positive publicity or public support for administering the program, but it often received criticism from several of the regional centers and the District Office of the SBA on how the statewide program was administered.

4. The College decided it could better use the $55,000 - $70,000 a year to help support its small business efforts which more directly deliver programs to small business -- its highly successful Small Business Institute which conducts over 100 student consulting projects per year for area businesses, its Regional SBDC located in the Enterprise Center in St. Paul, and the programs related to its Endowed Chair in Small Business amd Entrepreneurship held by Mr. Daryl Erdman.

In summary, the College of St. Thomas will continue to be committed to offering counseling and educational programming to metro area small businesses, and the College believes the Department of Trade and Economics Development will be better able to financially support the SBDC State Office.

Respectfully submitted,

Theodore L. Fredrickson

Theodore L. Fredrickson, Ph.D.
Chair, Department of Business Administration

Senator BOSCHWITZ. Does anybody else have any time constraints, otherwise I will now proceed to my opening statement. No need to call the hearing to order because it has indeed begun.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator BOSCHWITZ. I have a very keen interest in the issues of the small business community generally, and Small Business Development Centers in particular. I am now the Senior Republican on the Small Business Committee, which means I will have a more active role to play in all these matters. I also continue to be, I think, the only small businessman on the Small Business Committee. And so I think that, too, will give me a better understanding of the problems that come before us.

Let me say first, I am a strong supporter of the SBDC Program. Over the years some have proposed that this program be abolished or substantially curtailed. I wrote to President Bush prior to his being sworn in expressing my opposition to proposals to eliminate funding for the program. And I think that certainly these funds will continue despite ongoing efforts to eliminate them.

If we have learned anything during the past 6 years it is that small business is the engine that has pulled the national economy through an unprecedented period of growth and prosperity. The National Federation of Independent Business, a small business advocacy group calculates that 64 percent of all new jobs created during that period, and there were 19 million of them or so, came from small business. And of course the rest, interestingly, came from very large businesses. Most of them came from small business or medium-size businesses. The recent unemployment figures are encouraging both here in Minnesota and also nationally. I have no doubt that the SBDC Program has contributed to those results.

As you know the SBDC Program provides counseling, training, and research assistance to owner/managers and would-be owners of small business on a whole range of subjects including finance, marketing, personnel, business planning, and so forth. These areas are critical to the success of a small business. And I find that many people who go into small business and have an idea, have not thought through the other elements of going into business. And so that the SBDC Center has a particular value and gives these people the best chances of succeeding.

Minnesota has participated in the program for the last 10 years when St. Cloud became the lead center. Then St. Thomas became the lead center and by that time there were 11 subcenters spread throughout the State of Minnesota.

As you know, St. Thomas decided to withdraw, as we've heard, starting January 1, 1989. We've gone through all that. Representative Otis has put us up to speed on that and the uncertainty surrounding the SBDC Program. Therefore, the purpose of this hearing is to receive testimony about the status of this vital small business program and consider options to resolving the question of the lead center for the years ahead.

[The prepared statement of Senator Boschwitz follows:]

STATEMENT OF SENATOR RUDY BOSCHWITZ
HEARING ON SMALL BUSINESS DEVELOPMENT CENTERS
MARCH 13, 1989

Good afternoon, ladies and gentleman. I'd like to call to order this oversight hearing of the Senate Small Business Committee regarding the status of the Minnesota Small Business Development Center program and Cooperative Agreement. I appreciate your interest in this issue. I have a brief statement and then I will be pleased to hear the testimony of witnesses.

I am the senior Republican on the Senate Small Business Committee, which has oversight responsibility for the Small Business Administration and its Small Business Development Center program.

Let me say at the outset that I am a strong supporter of the SBDC program. Over the years some have proposed that this program be abolished or substantially curtailed. I have opposed these suggestions because, as a small businessman, I understand better than most of my colleagues how difficult it is to begin a new business, and once begun, to make it profitable.

If we have learned anything during the past six years, it is that small business is the engine that has pulled the national economy through an unprecedented period of growth and prosperity. The National Federation of Independent Business, a small business advocacy group, calculates that 63.7 percent of all new jobs created during this period, came from small business. Of course, the recent national unemployment figures (declined from 5.4% to 5.1%) are remarkable. Minnesota is doing pretty well too--I understand that its unemployment rate is 5.1% as of January.

I have no doubt the SBDC program has contributed to the growth of small businesses both nationally and in Minnesota.

As you know, the SBDC program provides counseling, training and research assistance to owners, managers and would-be owners of small businesses on a whole range of subjects, including finance, marketing, personnel and business planning. These areas are critical to the success of small business. The SBDC program ensures that individuals seeking to start a business have the best possible chance of succeeding.

Minnesota has participated in the SBDC since 1979, when St. Cloud State University was the lead center. Commencing in 1982, St. Thomas College became the lead center. By that time there were eleven subcenters spread throughout the state of Minnesota in colleges and vocational schools.

As you know, St. Thomas decided last year to withdraw as the lead center in this important program, although I am pleased it has elected to maintain its subcenter. Since St. Thomas' withdrawal,

the Minnesota SBDC program has been beset with uncertainty regarding its future.

Starting January 1, 1989, the Greater Minnesota Corporation (GMC) was expected to become the lead center under a cooperative agreement with the SBA. Subsequently, a decision was made that the Department of Trade and Economic Development would fulfill the terms of the cooperative agreement for the balance of the 1989. At that time the contract for the lead center will be open for reconsideration.

The uncertainty surrounding the SBDC program is troubling. My primary concern is that a practical business assistance program is suffering because of the changes. Therefore, the purpose of this hearing is to receive testimony about the status of this vital small business program and options for resolving the question of the lead center for the years ahead.

At this time, I am prepared to hear the first witness.

Senator BOSCHWITZ. Now, we'll get back to our schedule of witnesses and the first set of witnesses will be Mr. Ed Daum, Michael Miles, Bob de la Vega, and Charles Schaffer. Would all of you come and sit at the table and identify yourselves. And we'll take them in the order that I have mentioned. All right. Ed, we will start with you and we have your statement.

STATEMENT OF EDWARD DAUM, DISTRICT DIRECTOR, MINNESOTA DISTRICT OFFICE, U.S. SMALL BUSINESS ADMINISTRATION

Mr. DAUM. Senator Boschwitz, the Minnesota office of the Small Business Administration welcomes the interests of the Senate Small Business Committee in Minnesota, SBDC Program. The SBDC Program in Minnesota has 30 centers serving small business throughout the entire State. The Greater Minnesota Corporation is the host institution until December 31, 1989. The SBA welcomes all suggestions that would come from this Committee and the witnesses who will appear before it. We are pleased to have the opportunity to express our views about the operation of the program. And we'll provide a summary of the events that have transpired since August 19, 1988.

Senator BOSCHWITZ. Why do I think there are 11 and you say 30?

Mr. DAUM. Senator, there are the regional centers, but then regional centers have subcenters.

Senator BOSCHWITZ. I see. OK.

Mr. DAUM. In August 1988, the College of St. Thomas told us they would not be submitting a proposal to be the host institution for 1989. We were told they no longer had the resources available to provide the oversite the program required; that the statewide operation was not the mission of the school and that their money should go toward education especially with the expansion of the downtown Minneapolis campus.

The college told all the SBDC centers that they would be submitting a proposal. And we called each center as well. The local newspapers carried several articles stating this was the last year for the College of St. Thomas to be the host institution. We received many phone calls from interested organizations wanting more information about being the lead institution. And six organizations asked us for applications. They were Mankato State, University of Minnesota-Duluth, University of Minnesota Rural Extension Service, State Office for the Technical Institutes, the Chancellor's Office for the State University system, and the Minnesota Department of Trade and Economic Development. We attended a meeting at the request of the Chancellor's office in the State University system.

In attendance were representatives from the Chancellor's office, DTED, and GMC. At this meeting GMC provided a letter signed by the Governor supporting GMC as the host institution. At this point all other institutions deferred submitting a proposal. The only proposal SBA received was from GMC. We had concern about the mission of the GMC being compatible with the SBDC's mission. We also were concerned that the mission of the SBDC would get changed. We expressed these concerns to GMC and asked them to convince not only the local SBA office but our Chicago regional office and Washington central office that this would not happen.

Meetings were held and the GMC gave us assurances that the mission of the SBDC would not change.

GMC had to wait until the fall meeting of the board of directors before they could get approval to take on this new role. Approval was given and with assistance from the staff members of the College of St. Thomas, the University of Minnesota-Duluth and the SBA, the GMC submitted a proposal. The proposal was approved and GMC became the host institution effective January 1, 1989.

In early January, GMC called us to say they had some bad news and that news was that the legislature thought the administration of the SBDC's Program was not the GMC's role. In January we attended a meeting called by State Representative Todd Otis. Attending the meeting was State Senator Don Frank and representatives from GMC and DTED. The Governor's office was not represented. We explained that Federal law does not permit the cooperative agreement to be transferred and that if GMC dropped their role before December 31, 1989, there would be a break in service. We also emphasized that the SBDC had to have the approval of the Governor and his office was not represented at this meeting.

In early February, State Representative Todd Otis and State Senator Don Frank invited us to attend a meeting attended by GMC and DTED. GMC wanted to discuss immediate transfer of the SBDC to DTED. They wanted to drop their SBDC role by March 31, 1989. The Governor had signed a letter endorsing DTED. We explained there was not enough time for DTED to submit a proposal to SBA and have it approved by March 31, 1989. We also emphasized this would be considered a break in service and Minnesota would be losing about $900,000 in Federal funding.

SBA would consider the Minnesota SBDC a new SBDC and it would start with the minimum funding of about $200,000. We all agreed at the meeting in order to avoid losing the money and shutting down the SBDC and the structure that has taken about 10 years to build. GMC would remain as the host institution until December 31, 1989, but the administration would be performed by DTED. Also at this meeting GMC agreed to finalize the documents required in order for them to remain the host institution until December 31, 1989. About 2 weeks ago a meeting was held to inform the Governor's office of the progress being made and to finalize arrangements. In attendance were Lynn Anderson, the Governor's Chief of Staff; Todd Otis, State Representative; Don Frank, State Senator and representatives from DTED and GMC.

We agreed GMC would immediately transfer the administration of the SBDC to DTED and GMC would be accountable for program delivery and the budget until 1989. Also GMC agreed that funds would immediately start flowing to the SBDC centers. When GMC gives us a letter stating they will not be submitting a proposal for 1990, we will issue a request for a proposal.

Public Law 96-302 SBDC Act, 1980, states which organizations are eligible and includes State agencies and schools. We will review all the proposals to insure the applicants are eligible and what they view toward providing the small business with the most comprehensive and coordinated assistance in the State. We need to know how strongly the Governor feels about one institution over another because the Governor must approve the SBDC. The infra-

structure of the 30 centers is going to remain essentially in tact regardless of who is the host institution. This is a summary of events that has transpired since August 1988. I'll be pleased to answer any questions at this time.

[The prepared statement of Mr. Daum follows:]

STATEMENT OF

EDWARD A DALM, DISTRICT DIRECTOR

MINNESOTA DISTRICT OFFICE

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SENATE SMALL BUSINESS COMMITTEE (FIELD HEARING)

MINNEAPOLIS, MINNESOTA

MARCH 13, 1989

SENATOR BOSCHWITZ, THE MINNESOTA OFFICE OF THE SMALL BUSINESS ADMINISTRATION WELCOMES THE INTEREST OF THE SENATE SMALL BUSINESS COMMITTEE IN THE MINNESOTA SBDC PROGRAM. THE SBDC IN MINNESOTA HAS 30 CENTERS SERVING SMALL BUSINESS THROUGHOUT THE ENTIRE STATE. THE GREATER MINNESOTA CORPORATION IS THE HOST INSTITUTION UNTIL DECEMBER 31, 1989. THE SBA WELCOMES ALL SUGGESTIONS THAT WILL COME FROM THIS COMMITTEE AND THE WITNESSES WHO WILL APPEAR BEFORE IT. WE ARE PLEASED TO HAVE THE OPPORTUNITY TO EXPRESS OUR VIEWS ABOUT THE OPERATION OF THE PROGRAM. WE WILL PROVIDE A SUMMARY OF THE EVENTS THAT HAVE TRANSPIRED SINCE AUGUST 1988.

IN AUGUST, 1988, THE COLLEGE OF ST. THOMAS TOLD US THEY WOULD NOT BE SUBMITTING A PROPOSAL TO BE THE HOST INSTITUTION FOR 1989. WE WERE TOLD:

-- THEY NO LONGER HAD THE RESOURCES AVAILABLE TO PROVIDE THE OVERSIGHT THAT THE PROGRAM REQUIRED,
-- THAT THE STATEWIDE OPERATION WAS NOT THE MISSION OF THE SCHOOL, AND
-- THEIR MONEY SHOULD GO TOWARD EDUCATION, ESPECIALLY WITH THE EXPANSION OF THE DOWNTOWN MINNEAPOLIS CAMPUS.

THE COLLEGE TOLD ALL OF THE SBDC CENTERS THEY WOULD NOT BE SUBMITTING A PROPOSAL AND WE CALLED EACH CENTER AS WELL. THE LOCAL NEWSPAPERS CARRIED SEVERAL ARTICLES STATING THIS WAS THE LAST YEAR FOR THE COLLEGE OF ST. THOMAS TO BE THE HOST INSTITUTION.

WE RECEIVED MANY PHONE CALLS FROM INTERESTED ORGANIZATIONS WANTING MORE INFORMATION ABOUT BEING THE LEAD INSTITUTION AND SIX ORGANIZATIONS ASKED US FOR APPLICATIONS. THEY WERE:

-- MANKATO STATE
-- UNIVERSITY OF MINNESOTA-DULUTH
-- UNIVERSITY OF MINNESOTA RURAL EXTENSION SERVICE
-- STATE OFFICE FOR THE TECHNICAL INSTITUTES
-- CHANCELLOR'S OFFICE FOR THE STATE UNIVERSITY SYSTEM, AND
-- MINNESOTA DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

WE ATTENDED A MEETING AT THE REQUEST OF THE CHANCELLOR'S OFFICE OF THE STATE UNIVERSITY SYSTEM. IN ATTENDANCE WERE REPRESENTATIVES FROM THE CHANCELLOR'S OFFICE, DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT (DTED), AND GREATER MINNESOTA CORPORATION (GMC). AT THIS MEETING GMC PROVIDED A LETTER SIGNED BY THE GOVERNOR SUPPORTING GMC AS THE HOST INSTITUTION. AT THIS POINT, ALL OTHER INSTITUTIONS DEFERRED SUBMITTING A PROPOSAL. THE ONLY PROPOSAL SBA RECEIVED WAS FROM GMC.

WE HAD CONCERN ABOUT THE MISSION OF THE GMC BEING COMPATIBLE WITH THE SBDC'S MISSION. WE ALSO WERE CONCERNED THAT THE MISSION OF THE SBDC WOULD GET CHANGED. WE EXPRESSED THESE CONCERNS TO GMC AND ASKED THEM TO CONVINCE NOT ONLY THE LOCAL SBA OFFICE, BUT OUR CHICAGO REGIONAL OFFICE AND WASHINGTON CENTRAL OFFICE THAT THIS WOULD NOT HAPPEN. MEETINGS WERE HELD AND THE GMC GAVE US ASSURANCES THE MISSION OF THE SBDC WOULD NOT CHANGE.

GMC HAD TO WAIT UNTIL THE FALL MEETING OF THEIR BOARD OF DIRECTORS BEFORE THEY COULD GET APPROVAL TO TAKE ON THIS NEW ROLE. THE APPROVAL WAS GIVEN AND, WITH ASSISTANCE FROM THE STAFF MEMBERS OF THE COLLEGE OF ST. THOMAS, UNIVERSITY OF MINNESOTA-DULUTH, AND SBA, THE GMC SUBMITTED A PROPOSAL.

THE PROPOSAL WAS APPROVED AND GMC BECAME THE HOST INSTITUTION EFFECTIVE JANUARY 1, 1989.

IN EARLY JANUARY, GMC CALLED US TO SAY THEY HAD SOME BAD NEWS AND THAT NEWS WAS THAT THE LEGISLATORS THOUGHT THE ADMINISTRATION OF THE SBDC PROGRAM WAS NOT THE GMC'S ROLE. IN JANUARY, WE ATTENDED A MEETING CALLED BY STATE REPRESENTATIVE TODD OTIS. ATTENDING THE MEETING WAS STATE SENATOR DON FRANK, AND REPRESENTATIVES FROM GMC AND DTED. THE GOVERNOR'S OFFICE WAS NOT REPRESENTED. WE EXPLAINED THAT FEDERAL LAW DOES NOT PERMIT THE COOPERATIVE AGREEMENT TO BE TRANSFERRED AND THAT IF GMC DROPPED THEIR ROLE BEFORE DECEMBER 31, 1989, THERE WOULD BE A BREAK IN SERVICE.

WE ALSO EMPHASIZED THAT THE SBDC HAD TO HAVE THE APPROVAL OF THE GOVERNOR AND HIS OFFICE WAS NOT REPRESENTED AT THIS MEETING.

IN EARLY FEBRUARY, STATE REPRESENTATIVE TODD OTIS AND STATE SENATOR DON FRANK INVITED US TO A MEETING ATTENDED BY GMC AND DTED. GMC WANTED TO DISCUSS IMMEDIATE TRANSFER OF THE SBDC TO DTED. THEY WANTED TO DROP THEIR SBDC ROLE BY MARCH 31, 1989. THE GOVERNOR HAD SIGNED A LETTER ENDORSING DTED.

WE EXPLAINED THERE WAS NOT ENOUGH TIME FOR DTED TO SUBMIT A PROPOSAL TO SBA AND HAVE IT APPROVED BY MARCH 31, 1989. WE ALSO EMPHASIZED THAT THIS WOULD BE CONSIDERED A BREAK IN SERVICE AND MINNESOTA WOULD BE LOSING ABOUT $900,000.00 IN FEDERAL FUNDING. SBA WOULD CONSIDER THE MINNESOTA SBDC A NEW SBDC AND IT WOULD START WITH THE MINIMUM FUNDING OF ABOUT $200,000.00.

WE ALL AGREED AT THE MEETING IN ORDER TO AVOID LOSING THE MONEY AND SHUTTING DOWN THE SBDC INFRASTRUCTURE THAT HAS TAKEN ABOUT TEN YEARS TO BUILD, GMC WOULD REMAIN AS THE HOST INSTITUTION UNTIL DECEMBER 31, 1989, BUT THE ADMINISTRATION WOULD BE PERFORMED BY DTED. ALSO, AT THIS MEETING, GMC AGREED TO FINALIZE THE DOCUMENTS REQUIRED IN ORDER FOR THEM TO REMAIN THE HOST INSTITUTION UNTIL DECEMBER 31, 1989.

ABOUT TWO WEEKS AGO, A MEETING WAS HELD TO INFORM THE GOVERNOR'S OFFICE OF THE PROGRESS BEING MADE AND TO FINALIZE ARRANGEMENTS. IN ATTENDANCE WERE:

-- LYNN ANDERSON, THE GOVERNOR'S CHIEF OF STAFF
-- TODD OTIS, STATE REPRESENTATIVE
-- DON FRANK, STATE SENATOR, AND
-- REPRESENTATIVES FROM DTED AND GMC.

WE AGREED GMC WOULD IMMEDIATELY TRANSFER THE ADMINISTRATION OF THE SBDC TO DTED AND GMC WOULD BE ACCOUNTABLE FOR PROGRAM DELIVERY AND THE BUDGET UNTIL DECEMBER 31, 1989. ALSO, GMC AGREED THAT FUNDS WOULD IMMEDIATELY START FLOWING TO THE SBDC CENTERS.

WHEN GMC GIVES US A LETTER STATING THEY WILL NOT BE SUBMITTING A PROPOSAL FOR 1990, WE WILL ISSUE A REQUEST FOR A PROPOSAL. PUBLIC LAW 96-302 "SBDC ACT OF 1980" STATES WHICH ORGANIZATIONS ARE ELIGIBLE AND INCLUDES STATE AGENCIES AND SCHOOLS. WE WILL REVIEW ALL THE PROPOSALS TO INSURE THE APPLICANTS ARE ELIGIBLE AND WITH A VIEW TOWARD PROVIDING SMALL BUSINESS WITH THE MOST COMPREHENSIVE AND COORDINATED ASSISTANCE IN THE STATE. WE NEED TO KNOW HOW STRONGLY THE GOVERNOR FEELS ABOUT ONE INSTITUTION OVER ANOTHER BECAUSE THE GOVERNOR MUST APPROVE THE SBDC.

THE INFRASTRUCTURE OF THE 30 CENTERS IS GOING TO REMAIN ESSENTIALLY INTACT REGARDLESS OF WHO IS THE HOST INSTITUTION.

THIS IS A SUMMARY OF THE EVENTS THAT HAVE TRANSPIRED SINCE AUGUST 1988. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

Senator BOSCHWITZ. First, do you have a list of the 30 centers, where they are, and so forth, and could you provide that to my staff please.

Mr. DAUM. Yes, we'll be glad to provide it.[1]

Senator BOSCHWITZ. Second, what is the status of the lead SBDC? I presume languishing a little bit. Am I correct in that, in the GMC?

Mr. DAUM. It's the—I'm sorry, Senator.

Senator BOSCHWITZ. It's not moving forward, it's not being given as much direction as it was in earlier years, in its present circumstances, is that correct?

Mr. DAUM. Presently our concerns are there are—there's not a State director to provide the leadership. And we are in—today's March 13, we should have a director on board providing assistance, providing the leadership to the other centers.

Senator BOSCHWITZ. So that the program is languishing a little bit at the present time?

Mr. DAUM. Yes.

Senator BOSCHWITZ. I trust that you will push that because if we are going to spend the public funds we want to get this program moving forward. The State government should get the thing going and decide that it's going to be moved over to the DTED. It certainly seems to me that they could make that transition even earlier on as you suggested in your testimony. And I trust that you will be—we have Mr. de la Vega, he'll tell us a little bit about that. OK. We will move on that case to Mike Miles. And do you have prepared testimony?

STATEMENT OF MICHAEL MILES, GREATER MINNESOTA CORPORATION

Mr. MILES. No, I do not, Senator. My remarks will be very brief. Senator Boschwitz, Mr. Coyle, thank you for the invitation to come before you today. We are interested in a resolution of the SBDC Program. And hopefully we have been a positive contributor to that program. I believe you have most of the background before you already. Suffice it to say that towards the end of last summer we were asked to become involved with the SBDC Program. We complied with that. And with the assistance of Bob Heller and a number of other people around the State were able to put in a successful proposal in order to become a host institution.

In early January of this year we learned that several members of the legislature were very involved with economic development activities, we believe that as a permanent home perhaps the Department of Trade and Economic Development would be the best ultimate place for the program to reside. After a series of meetings which you already heard about, we have endeavored to assist in the transition of the program effectively from the Greater Minnesota Corporation to the Department of Trade and Economic Development to do the actual administration during the remainder of this year. And I'd be glad to answer any questions.

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[1] Material not available at time of going to press.

Senator BOSCHWITZ. Who's going to hire the new director, you or the Department of Trade and Economic Development?

Mr. MILES. Senator, I think the ultimate decision on that ought to be one that's made by the Department of Trade and Economic Development.

Senator BOSCHWITZ. Well, perhaps we'll listen to Mr. de la Vega.

Mr. SCHAFFER. I'm Mr. Schaffer. Mr. de la Vega had to go back to the legislature.

Senator BOSCHWITZ. Do you have a prepared statement?

Mr. SCHAFFER. No, I do not, but I would like to address the question you asked earlier about how these centers are run in other States and then expand a little bit about what Mr. Miles said about what's going to happen in terms of transition.

STATEMENT OF CHARLES SCHAFFER, DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

Mr. SCHAFFER. For the first of those issues, there are 53 host institutions in the country today. Some States have more than one. Eight of them are run by State agencies, five of them are run by 2-year community colleges and then 40 are run by universities and 4-year colleges. Of those 40, 36 are run by public institutions and four by private 4-year institutions.

On the second issue as to what one can expect to transpire once the initial agreement between DTED and GMC is put in place, I think there are three elements as to what will happen. One, we intend immediately to insure some kind of stability and certainty in the operation of the SBDC network. In practice that means that the performance of very basic tasks.

Senator BOSCHWITZ. But you have tests for——

Mr. SCHAFFER. Senator, we have not been running the Small Business Department Centers.

Senator BOSCHWITZ. I understand. Well, he says you're going to, so start up but go ahead.

Mr. SCHAFFER. We'll start right now, Senator. I'll just tell you what we'll be doing and once we indeed execute the contract, we'll be dealing with very basic issues, conforming their work plans, dispursing of funds to those centers; appointing State level staff; shifting accounting, recordkeeping and recording functions; getting necessary programs and financial reports to the Small Business Administration insuring adequate comprehensive and timely service delivery to the clientele of the staff of the small business assistance office.

Ted has been working with GMC and with the SBA to insure this transition as soon as we can indeed sign the contractual agreement. Two, we anticipate for the balance of calendar 1989 to look at the Small Business Development Centers and services in the context of community needs, the individual center's capabilities expense and the realities of Federal and State funding. And out of that we hope to get an evaluation of the effectiveness and efficiency of the current service delivery and some initial thoughts as to how that efficiency and effectiveness can be improved.

Three, we then intend to begin planning for the competitive process that begins in December 1989, for DTED to actually become

the official host institution for the Small Business Development Centers after January 1, 1990. And I'll be happy to answer any questions.

Senator BOSCHWITZ. When are you going to hire a director?

Mr. SCHAFFER. Senator, we are going to hire a director as soon as we execute a contract with the Greater Minnesota Corporation for us to administer the program for the balance of calendar 1989.

Senator BOSCHWITZ. When are you going to enter into such agreement?

Mr. SCHAFFER. Mr. Miles tells me we'll enter this agreement this week.

Senator BOSCHWITZ. So therefore, have you begun the process of looking around for such a director? You know, organizations don't work well——

Mr. SCHAFFER. Senator, we have begun the process of looking around for such a director. We have gotten some names; I spoke with some people. We also had conversations with the Department of Employee Relations at the State which actually has to do the process of establishing a position and setting pay raises and the like and likewise with the Department of Finance, to arrange for the speedy transfer and transfer over of the accounting and record-keeping function and the dispersement functions.

Senator BOSCHWITZ. Well, it was my opinion that for many years that these centers were intended to be part of the university of the State. And I understand from my counsel that it's hard to determine that from the record or from the legislation but certainly from the practice. And we weren't too pleased with the fact that it gets jockied around here in the State; that we thought the program was a little better than that and deserved a little better.

We hope that you move forward with it quickly. If, unfortunately as Don has pointed out we are under some constraints that would cause the loss of funding in the event there was a change, but since you have run into political problems of your own on the local scene.

And it's just important that the program not languish as you seek new leadership and as you seek to get yourself in gear. So I hope that it will move along. I understand all the stuff about the context of community needs. I listen to that kind of thing all the time in Washington. But we would like to think that the State can get things done with a little greater expedited procedure than we seem to be able to in Washington. And I don't need to state that we are an example by any means. But it's a good program, a small program, but a program that gives people who are going to go into business a little support where they might not otherwise have it. We hope that you get somebody with some business experience to be director, not just some political type and that would be a useful director to have to move forward. Perhaps somebody from the SCORE Program who wants to be involved, would be a useful person as director and non-political type. Mr. Coyle, do you have questions?

Mr. COYLE. I have two questions. Mr. Miles, would you be able to comment just briefly the process whereby the Governor's office determined that GMC would be the lead center for 1989?

Mr. MILES. Senator Boschwitz, Mr. Coyle, the Governor's offices I believe as indicated earlier had written a letter to Monsignor Murphy at the College of St. Thomas expressing his interest in having the Greater Minnesota Corporation considered as State administrator for the program.

Mr. COYLE. Do you know whether the Governor's office was aware there were other institutions that were expressing interest in bidding for the program at that time?

Mr. MILES. Senator Boschwitz, Mr. Coyle, I do not know.

Mr. COYLE. Second, I understood that with the budget that GMC had submitted, there were some discrepancies that needed to be clarified before full funding for 1989 could be authorized. Do you know whether those funding ambiguities have been clarified such that there will be ongoing funding for the duration of 1989?

Mr. MILES. Senator Boschwitz, Mr. Coyle, yes, I believe they have been corrected. I would also note for this meeting in terms of funding made available under the plans submitted by the Greater Minnesota Corporation, we essentially cut the overhead of the State office in half. That additional funding is being divided up among the various centers to do the kind of programming work Senator Boschwitz has elicited to.

Mr. COYLE. Thank you.

Senator BOSCHWITZ. Mr. Daum, do any of you have any further statements or anything else that you'd like to say?

Mr. DAUM. Senator, we are really pleased that you're in this and we are really anxious to get an SBDC director on board. I think one thing that complicates it is if either GMC or DTED hired a director and then next year the host institution goes to the University of Minnesota, I really think someone's input is going to be important in the hiring process in the next week or two because we don't want to hire a director simply for 7 or 8 months. We want to hire a director that's going to provide continuity throughout 8, 10, or more years. That's one of the concerns, one thing that we are going to have to pay special attention to when a new director is hired.

Senator BOSCHWITZ. Well, I agree there should be some continuity. Thank you very much for coming. Now we will get into the third panel, Mr. Gullette, Ms. Thompson, Bob Heller, Paul Clogen, and Marcia Bystrom.

Mr. COYLE. Why don't you just identify yourselves so we can figure out who we have and who we don't have.

Mr. GULLETTE. Art Gullette, Bemidji State University, SBDC Director. University of Minnesota-Duluth, SBDC Director.

Ms. THOMPSON. Tracy Thompson, SBDC Director, Winona State University.

Senator BOSCHWITZ. We appreciate all three of you coming from considerable distances. I presume Tracy is going to say that Mr. Sweeten will not be here.

Ms. THOMPSON. That is correct. I will just be responding to certain issues today.

Senator BOSCHWITZ. OK. Mr. Gullette?

Mr. GULLETTE. That's correct.

Senator BOSCHWITZ. Why don't you begin. Very impressive testimony here.

STATEMENT OF ARTHUR GULLETTE, BEMIDJI STATE UNIVERSITY, SBDC REGIONAL DIRECTOR

Mr. GULLETTE. Thank you very much, Senator Boschwitz, for referring to it as impressive. However, it may be impressive since we put it together on the word processor this morning. And on the plane coming down I made two hand corrections. And there's one statistical correction that I'll make as I go through it, all right?

Senator BOSCHWITZ. Yes.

Mr. GULLETTE. Senator Boschwitz and Peter Coyle, thank you for giving SBDC regional directors and SBA officials and others this opportunity to discuss the Minnesota State SBDC Program with you. I was asked to give testimony today on two related topics. One, my observations about the SBDC Program in general. And two, my observations regarding this election of Minnesota State leading SBDC institution for calendar year 1990 and beyond. My academic rank is that of professor in the Department of Business Administration at Bemidji State University. I am currently assigned two-thirds time to the SBDC Program and one-third other economic development outreach initially sponsored by the University. Based upon my experience as to Bemidji regional SBDC director over the past 5 years, I feel the following three areas must be considered when selecting a lead institution.

Senator BOSCHWITZ. You're not teaching?

Mr. GULLETTE. I haven't taught for the past 1½ years. Occasionally if other duties, not SBDC duties, but other initiatives flounder or something then I may pick up a course.

Senator BOSCHWITZ. Go on.

Mr. GULLETTE. No. 1, need for flexible response on the part of the regional centers. Each SBDC serves a region—service region is different, both in terms of research base and economic conditions. For example, the geographical service region assigned to me is as outlined in Appendix I. It consists of roughly 17,000 square miles, about 230,000 people and it's characterized by high unemployment and low per capita income.

Appendix II shows a median county unemployment rate for the region which is—and there's where the correction comes in, not 70 percent but 59 percent higher than the State average for calendar year 1987. In other words over half the counties in the serviced region would have an unemployment rate in excess of—59 percent higher than the State average. And median county per capita income only 71 percent of the State's per capita income.

Because of the geographical, economic, and resource differences among service areas, it is important that the lead institution recognize the importance of program flexibility. For example, two of my satellites are located at economic development organizations not at higher education institutions. Even in a county served by Bemidji Regional SBDC, I contract with many existing technical assistant providers to meet client needs. Also on the heading of flexibility would be the International Trade Program currently operated from my office with funding from the Northwest Initiative Fund.

The core of the program is in North Country Exporters Association comprised of a variety of private sector manufacturing programs. Please refer to Appendix IV for a listing of additional

NCEA paid members and an NCEA brochure. The NCEA has just recently incorporated and continues to attract from throughout northern Minnesota into eastern North Dakota. There are numerous other examples of centers which have developed specialized relationships in areas of expertise under the SBDC Program. Gordon Winzinburg, the Brainard SBDC director, has established an excellent working relationship with the banking community and has worked closely with it to make them aware of how the SBDC can assist them and the bank's commercial customers—please refer to Appendix V, which describes informational conferences held throughout the State for bankers sponsored by the Minnesota Bankers Association in which Mr. Winzinburg was one of two primary presenters.

No. 2, regional center accountability. The State and lead institution while allowing and even encouraging regional——

Senator BOSCHWITZ. Before you go on to regional center accountability, and you know, we normally look at the program from on top. And so it's interesting to listen to you describe the workings of the program. But for instance you say two of my satellites. How many satellites do you have?

Mr. GULLETTE. Three satellites, one in International Falls, one in Thief River Falls and one in Grand Rapids.

Senator BOSCHWITZ. And how does Mr. Winzinburg——

Mr. GULLETTE. Yes, Winzinburg is not in my area; he's another regional director.

Senator BOSCHWITZ. Oh, yes, you don't have——

Mr. GULLETTE. I'm merely talking about my observations generally regarding the statewide SBDC Programs. And I used my own area for illustrative purposes.

Senator BOSCHWITZ. Tell me a little about, for instance, Thief River Falls Technical. Is there a college also in Grand Rapids in which it is——

Mr. GULLETTE. In Grand Rapids there's a community college there, Grand Rapids Community College. It's at the Itasca Development Corp., which is a 501C3 accounting economic development effort. And it's a substantial progress in participation.

Senator BOSCHWITZ. And what kind of staffing does your satellite have there that you're responsible for? What is paid for by either the State or ourselves?

Mr. GULLETTE. Now the Federal contribution to my area is roughly $96,000. And $55,000 of that goes directly to satellites; $20,000 goes to Grand Rapids. So we have a $20,000 Federal budget. I should speak historically because obviously we're not currently under contract with them, technically. So in calendar year 1988 we have $20,000.

Senator BOSCHWITZ. Twenty of the $55,000?

Mr. GULLETTE. Right. Twenty also goes to Thief River Falls. Thief River Falls, the satellite is located at the Thief River Falls Technical Institute. There is also a community college there but we're contracting essentially to the technical institute.

Senator BOSCHWITZ. And International Falls then has 30 of the remaining 15,000?

Mr. GULLETTE. Fifteen, that's right.

Senator BOSCHWITZ. And therefore, would you tell me about the satellite, not one person who is exclusively on the payroll?

Mr. GULLETTE. In the Grand Rapids Itasca Development Corp. they use a substantial portion of the $20,000 to access a variety of private sector resources as well as agencies and other 501C3's. But they also have adequate staff there to handle incoming questions from the small business community. The Bidstead Authority in International Falls essentially did the same thing. In Thief River Falls now there is a person on board there who actually does the consulting.

Senator BOSCHWITZ. Are you going to talk in your subsequent testimony about——

Mr. GULLETTE. I included that for your background only, really. I did not make reference to it in the narrative.

Senator BOSCHWITZ. I see that. And you have not in the subsequent narrative either. The cases, about 500 in 1988, are they fairly equally divided among the four locations or——

Mr. GULLETTE. I cannot answer that off the top of my head. Really I would hazard to say that the Bemidji center would dominate the total number of cases.

Senator BOSCHWITZ. Tell me what a case is. You have 4 roughly 500 cases, roughly 26 hundred hours.

Mr. GULLETTE. The definition of a case is when a client signs a request for counseling, a form called 641. This constitutes a case. Many times the client would merely request a basic information, maybe a couple hours of my time, something like this and that's about it. Other clients of course would have substantial amounts of time.

Senator BOSCHWITZ. I see that the average amount of time about 5 hours and as you say it ranges.

Mr. GULLETTE. That's right.

Senator BOSCHWITZ. Tell me what they come in to talk to you about and at what juncture do they come in normally; are they existing businesses; are they new businesses or——

Mr. GULLETTE. Yes, again off the top of my head I could give you proportions that would be prospective startups as opposed to those already in business contemplating expansion and trying to forecast. I would say probably 40 percent would be thinking about a new business venture.

Senator BOSCHWITZ. Perspective.

Mr. GULLETTE. Exploring.

Senator BOSCHWITZ. Do you have any sense of how many of those explorations lead to startup?

Mr. GULLETTE. Again, off of top of the head, I preface that all the time, I would say probably 40 to 50 percent actually lead to a startup business. Of the remaining 60 to 50 percent that do not, they modify it, and so forth, and many of them eventually do but it might be over the course of 1 year, 18 months that they would come in.

Senator BOSCHWITZ. What do they normally come to talk to you about?

Mr. GULLETTE. Essentially to talk about the concept. Many times initially it's about funding. There's a great deal of confusion, as you probably are aware of, among all sectors of our society but par-

ticularly maybe the business sector by the use of acronyms, by different loans, grants are referred to, and so forth. So many really want to make sure about funding considerations.

Senator BOSCHWITZ. Funding from the Federal Government. They want to be——

Mr. GULLETTE. Possibly Federal Government, perhaps a revolving loan concept such as Northwest Minnesota Initiative, the HRDC revolving loan fund also active in our area. The MMCD revolving loan fund is also active in our area. And we could put in a few more I suppose. So there are many possible funding sources. Most of these sources are specifically targeted for new job creation, in other words, valuated manufacturing and service enterprises. And many of the people who come in to see me of course are interested in beauty parlors, pizza shops, and so forth, not necessarily value A.

Senator BOSCHWITZ. But of course you're as interested, I presume——

Mr. GULLETTE. Of course, right, but you have to go through the explanation as to the——

Senator BOSCHWITZ. Various funding sources——

Mr. GULLETTE. Requirements, right.

Senator BOSCHWITZ. And do they come in for business advise or do they come just to make sure they are not missing any opportunities they've heard that various people get?

Mr. GULLETTE. They also come in for specific advise.

Senator BOSCHWITZ. Advise.

Mr. GULLETTE. Advise, counseling, one-on-one counseling. They, without divulging names, and so forth, a wholesaler of steel products, business has grown reasonably large and he was unsure of his cost system and its ability to bid appropriately. He needed somebody familiar with the costs system, and so forth, to sit down with him. And we accessed somebody to do that.

Another person, again without identifying, a retail operation had difficulty in meeting the claimants of his SBA Guaranteed Loan. And we had to access somebody to help him specifically with revenue forecasting, cash flow analysis, and so forth.

Senator BOSCHWITZ. Do you use the seniors, are they active in your——

Mr. GULLETTE. I do not use students——

Senator BOSCHWITZ. Not senior students, but SCORE?

Mr. GULLETTE. SCORE is not active in the Bemidji area and perhaps I should take partial blame for this. I have tried on several occasions, and so forth, but it just doesn't seem to work because of the distances; the population base; the interest apparently in some segments of the community in the Bemidji area in visiting the south for prolonged periods of time during the winter. For a variety of reasons it just doesn't seem to work. We have used SCORE people. Glen Matson I've used numerous sometimes, and so forth. Of course Glen is down here.

Senator BOSCHWITZ. So you have tried to set up some SCORE activities?

Mr. GULLETTE. To develop an interest, to put together a group that might possibly bring a SCORE counseling group together, yes.

Senator BOSCHWITZ. Now, I know——

Mr. GULLETTE. That is not an example of one of my successes though.

Senator BOSCHWITZ. I know not everybody retires to Phoenix or Florida. Some people like to go up to the woods. Walker is Hubbard County, isn't it?

Mr. GULLETTE. Walker is in Cass County.

Senator BOSCHWITZ. Cass County. I have a friend up there seems to know some other people, George Brent, who are quite skilled as businessmen and perhaps we can give you——

Mr. GULLETTE. Perhaps if your office could send me some information. My card is attached to the——

Senator BOSCHWITZ. I see that. All right. Why don't you continue on that.

Mr. GULLETTE. Area II, regional center accountability. The State lead institution while allowing and encouraging regional center development and outreach efforts based on center strengths and adapted to regional needs must require an adequate quality performance for basic SBDC services and all centers and satellite offices throughout the State system. The lead institution must provide leadership in developing a listing of basic resources and counseling services that should be available at all regional centers and all satellite centers. And the criteria to measure quality levels for each.

What specific publications should each SBDC regional center and satellite have in its library? Which publications should be available in the libraries of regional centers only? What basic counseling technical expertise should all centers have? The determination and careful definition of basic services and delivery quality level for those services would go a long way in assuring an SBDC system capable of delivering basic services of consistent quality on a statewide basis and still allow and encourage directors to develop specialized programs.

No. 3, awareness——

Senator BOSCHWITZ. Before you leave, two didn't pass judgment now having worked with the problems we are having with the lead agency being moved from St. Thomas. Are you satisfied that DTED is going to be adequate and provide the functions in the way that you want it to be?

Mr. GULLETTE. Well, I guess I really don't have enough information now to answer that question. It would probably be premature. Having said that based on what I know historically of my dealing with the Minnesota Small Business Assistance Office, and the responsiveness of that office to a variety of questions that I've asked them over the 5 years that I have been SBDC director, and the responsiveness even of the director Charles Schaffer to respond to requests, for example, to present at a conference that we had. Rather subsequent to the conference with significant funds in the private sector, all totaled about $15,000. And we had 150, 200 people from throughout northern Minnesota and also in the Twin Cities for this. And on very short notice he responded and presented at that conference during one lunch presentation.

So based on this, I would probably be very favorable about that. However, I think I would want to discuss with the organization more fully what their plans would be in terms of basic services; in

terms of allowing satellites at different locations; and in terms of flexibility.

Senator BOSCHWITZ. OK. Go on to your third.

Mr. GULLETTE. No. 3, awareness, sensitivity, and ability to coordinate. The lead institution must be aware of and sensitive to the problems, strengths, weaknesses of various organizations which compromise the SBDC delivery system as well as the strengths and weaknesses of the many organizations outside the SBDC system which are involved in important aspects of economic development. The lead institution must be able to understand and relate to universities, the Minnesota Chamber, the SBA, technical institutes, the GMC, the High Tech Council, and so forth, if wise development and coordination of the SBDC program is to take place. Currently there is much confusion about the role of GMC-sponsored Business Innovation Centers initiative and the role of the SBDC in working with value-added manufacturing and service firms. I personally feel that with the BIC, there is much opportunity for enhanced service delivery to value-added manufacturing and service firms. But without proper coordination, confusion, and program disenchantment might very well result.

Suggestive criteria to selected institution. No. 1, the institution must be able to work with regional centers and encourage them to develop appropriate special programs and working relationships which will benefit their region and in some cases the State.

No. 2, the lead institution must have the technical ability to define and to measure the delivery of basic services and resources that should be available to all centers throughout the State. The lead institution must have the will, perhaps I should underline that, the will, to hold centers accountable in delivering these basic services and resources in a satisfactory manner.

No. 3, the lead institution must have awareness of and be sensitive to the strengths, weaknesses, and values of a variety of organizations in and out of the SBDC network which are involved in economic development.

The lead institution must be able to coordinate the program to reduce or eliminate unproductive overlap with non-SBDC programs.

The lead institution must have the general administrative and recordkeeping ability to comply with the paperwork requirements of the cooperative agreement. The lead institution must have the confidence and support of the Governor of the State of Minnesota.

[A prepared statement of Mr. Gullette follows:]

STATEMENT OF MR. GULLETTE

Senator Boschwitz and other members of the hearing panel:

Thank you for giving SBDC regional directors, SBA officials, etc. this opportunity to discuss the Minnesota state SBDC program with you. I was asked to give testimony today on two related topics: one, my observations about the SBDC program in general and two, my observations regarding the selection of a Minnesota state lead SBDC institution for calendar year 1990 and beyond.

My academic rank is that of professor in the Department of Business Administration at Bemidji State University. I am currently assigned two-thirds time to the SBDC program and one-third time to other economic development outreach initiatives sponsored by the University. Based upon my experiences as the Bemidji regional SBDC director over the past five years, I feel the following three areas must be considered when selecting a lead institution.

Need for Flexible Response on the Part of Regional Centers:
Each SBDC service region is different, both in terms of resource base and economic conditions. For example, the geographical service area assigned to me is as outlined in Appendix I. It consists of roughly 17,000 square miles, about 230,000 people and is characterized by high unemployment and low per capita income. Appendix II shows a median county unemployment rate for the region which is 70 percent higher than the state average for calendar year 1987 and median county per capita income only 71 percent of the state's per capita income.

Because of geographical, economic and resource differences among service areas, it is important that the lead institution recognize the importance of program flexibility. For example, two of my satellites are located at economic development organizations, not at higher education institutions. Even in the counties served by the Bemidji regional SBDC, I contract with many existing technical assistance providers to meet client needs. Also under the heading of flexibility would be the international trade program currently operated from my office with funding from the Northwest Minnesota Initiative Fund. The core of the program is the North County Exporters Association (NCEA) comprised of a variety of private sector manufacturing firms. Please refer to Appendix IV for a listing of NCEA paid members and a NCEA brochure. The NCEA has just recently incorporated and continues to attract members from throughout northern Minnesota as well as eastern North Dakota. There are numerous other examples of centers which have developed specialized relationships and areas of expertise under the SBDC program. Gordon Winzenburg, the Brainerd SBDC director, has established an excellent working relationship with the banking community and has worked closely with it to make them aware of how the SBDC can assist them and the bank's commercial customers. Please refer to Appendix V which describes informational conferences for bankers sponsored by the Minnesota Bankers Association in which Mr. Winzenburg was one of the two primary presenters.

Regional Center Accountability:
The state lead institution, while allowing and even encouraging regional center directors to develop unique programs and outreach efforts based on center strengths and adapted to regional needs, must require an adequate quality performance level for basic SBDC services at all centers and satellite offices throughout the state system. The lead institution must provide leadership in developing a listing of basic resources and counseling services that should be available at all regional centers, at all satellite centers and the criteria to measure quality levels for each of the basic services. What specific

publications should each SBDC regional center and satellite have in its library? Which publications should be available in the libraries of regional centers only? What basic counseling technical expertise should all centers have? Etc. The determination and careful definition of basic services and delivery quality level for those services would go a long way in assuring a SBDC system capable of delivering basic services of consistent quality on a statewide basis and still allow and encourage directors to develop specialized programs.

Awareness, Sensitivity and Ability to Coordinate:
The lead institution must be aware of and sensitive to the problems, strengths and weaknesses of the various organizations which comprise the SBDC delivery system as well as the strengths and weaknesses of the many organizations outside the SBDC system which are involved in important aspects of economic development. The lead institution must be able to understand and relate to universities, the Minnesota Chamber, the SBA, technical institutes, the GMC, the High Tech Council, etc. if wise development and coordination of the SBDC program is to take place. Currently there is much confusion about the role of the GMC-sponsored business innovation centers (BIC) initiative and the role of the SBDC in working with value-added manufacturing and services firms. I personally feel that with the BIC there is much opportunity for enhanced service delivery to value-added manufacturing and service firms; but without proper coordination, confusion and program disenchantment might very well result.

Suggested Criteria to Select a Lead Institution:

1. The lead institution must be able to work with regional centers and encourage them to develop appropriate special programs and working relationships which will benefit their regions and, in some cases, the state.

2. The lead institution must have the technical ability to define and to develop criteria to measure the delivery of basic services and resources that should be available at all centers throughout the state. The lead institution must have the will to hold centers accountable in delivering these basic services and resources in a satisfactory manner.

3. The lead institution must have awareness of and be sensitive to the strengths, weaknesses and value of a variety of organizations in and out of the SBDC network which are involved in economic development. The lead institution must be able to coordinate the program to reduce or eliminate unproductive overlap with non SBDC programs.

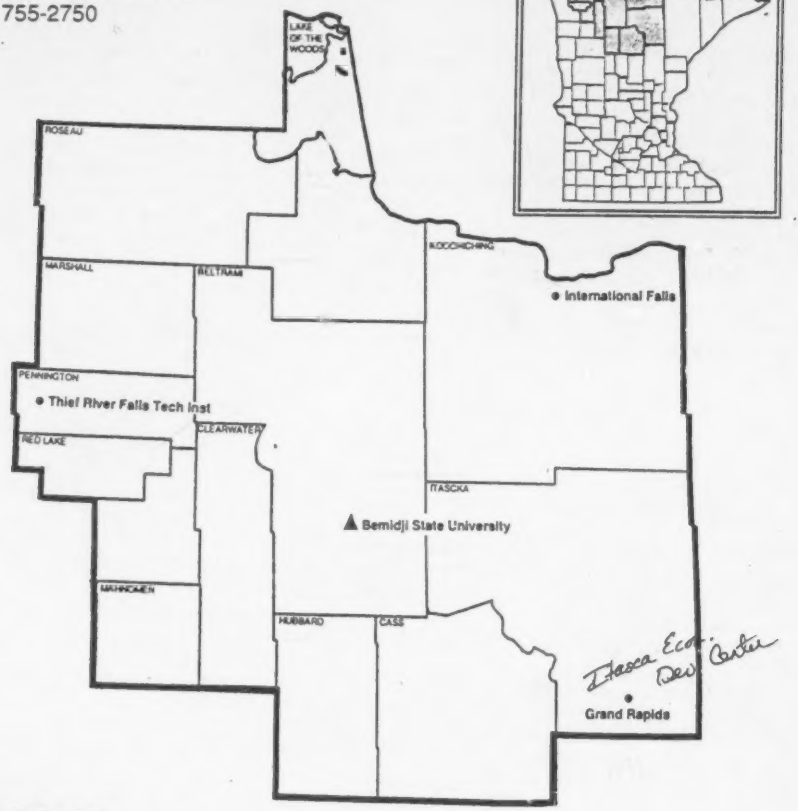
4. The lead institution must have the general administrative and record keeping ability to comply with the paperwork requirements of the cooperative agreement.

5. The lead institution must have the confidence and support of the Governor of the State of Minnesota.

APPENDIX I

Regional Reporting Center

▲ **Bemidji State University - SBDC**
Arthur Gullette, Director
Bemidji, MN 56601-2699
(218) 755-2750



• **International Falls - SBDC**
Bob Schwiderski, Director
Office of Economic Development
P.O. Box 392, City Hall
Intl. Falls, MN 56649
(218) 283-2109

• **Thief River Falls Technical Institute - SBDC**
Bob Bollesen, Director
Thief River Falls, MN 56701
(218) 681-5424
Toll Free (800) 222-2884

• **Grand Rapids - SBDC**
Director
One Northwest Third Street
Grand Rapids, MN 55744
(218) 327-22 1

APPENDIX II

DEMOGRAPHIC CHARACTERISTICS
OF THE BEMIDJI STATE UNIVERSITY SMALL BUSINESS DEVELOP CENTER
GEOGRAPHICAL SERVICE AREA

County	1987 Annual Average Unemployment Rate	County Unemployment Rate** Divided by State Average Unemployment Rate	Estimated 1987 County Population	1986 per* Capita Income	Percent of*** Statewide per Capita Income
Beltrami	7.5%	1.39	33,884	$ 9,962	.66
Cass (North 1/2)	11.4	2.11	21,184	10,015	.67
Clearwater	16.4	3.04	9,054	9,032	.60
Hubbard	9.2	1.70	15,563	9,991	.67
Itasca	10.7	1.98	43,442	10,572	.71
Koochiching	8.0	1.48	15,776	10,571	.71
Lake/Woods	7.8	1.44	3,881	10,492	.70
Pennington	8.6	1.59	13,556	12,222	.82
Polk (East 1/2)	8.4	1.56	33,696	13,409	.89
Red Lake	18.7	3.46	4,961	11,641	.78
Roseau	4.6	.85	14,009	12,396	.83

State Average Annual Unemployment Rate for 1987 - 5.4 Percent
(Minnesota Department of Jobs and Training)

Statewide per Capita Income - $14,992
(Minnesota Labor Market Review), May, 1988

* Population Notes, Minnesota State Planning Agency, September 1988

** Example: $\frac{\text{Beltrami County Unemployment Rate}}{\text{MN State Average Unemployment Rate}} = \frac{7.5\%}{5.4\%} = 1.39\%$ Beltrami County unemployment is 39 percent higher than the state average unemployment rate.

***Example: $\frac{\text{Per Capita Income-Beltrami County}}{\text{Statewide Per Capita Income}} = \frac{\$9,962}{\$14,992} = 66\%$ Beltrami County per capita income was 66% of state per capita income in 1986.

APPENDIX III

BEMIDJI STATE UNIVERSITY

SMALL BUSINESS DEVELOPMENT CENTER

STATISTICAL COMPARISON

ACTIVITY	1983	1984	1985	1986	1987	1988
Cases	76	91	350	430	402	492
Counseling Hours			1,777	2,564	2,786	2,579
Training Sessions	8	12	27	48	39	19
Training Session Attendees		747	699	1,199	1,516	989
Federal SBDC Funds	$13,910.50	$21,630.19	$76,854.84	$93,184.34	$96,622.00	$96,622.00

These statistics include activity at satellite centers in Grand Rapids, Thief River Falls and International Falls

APPENDIX IV

NORTH COUNTRY EXPORTERS ASSOCIATION
★ ★ ★ IN THE HEART OF NORTH AMERICA ★ ★ ★

BEMIDJI STATE UNIVERSITY — SBDC
1500 Birchmont Drive NE
Bemidji, MN 56601-2699
Office Telephone: (218) 755-2750
Executive Director: (218) 894-1376

NCEA Membership

March 13, 1989

Arctco, Inc.
ASV, Inc.
Bismark Tool and Die Co.
Dahlgren & Company Inc.
Erskine Manufacturing Co, Inc.
Forsbergs, Inc.
Gorman Cabinets, Inc.
Hoffman Custom Formal Wear
KenKatch Jigs
Lady Slipper Designs
Lindquist Wild Rice
Lorelei Studios
Marvin Windows
Milcare Company
Minnesota Association of Wheat Growers
Newmans' Manufacturing Inc.
Nortech, DSC
North American Industries, Inc.
Northwest Regional Development Comm.
Pallet Minnesota, Inc.
Phoenix Industries, Ltd.
Physician Engineered Products, Inc.
Rivard's Quality Seeds, Inc.
S.J. Electro Systems, Inc.
Sea Fest
Small Business Development Center
SOTA Foods, Inc.
St. Hilaire Co-op Elevators
Super Value Stores, Inc-Fargo Division
Thief River Falls SBDC
Thief River Linen
Unifoam Products, Inc.
United Satellite Systems
Vibrosaun International, Inc.
Village of the Smoky Hills

NCEA Membership

	Company Name	Representative	Address
1	Arctco, Inc.	Ole Tweet	P.O. Box 810
2	ASV, Inc.	-	-
3	Bismark Tool and Die Co.	-	P.O. Box 1107
4	Dahlgren & Company Inc	Thomas J. Miller	P.O. Box 609
5	Erskine Manufacturing Co, Inc.	Keith Sannes	-
6	Forsbergs, Inc.	Irv Forsberg	P.O. Box 510
7	Gorman Cabinets, Inc.	-	P.O. Box 414
8	Hoffman Custom Formal Wear	Elaine Hoffman	2910 Carol Drive
9	KenKatch Jigs	Al Kendall	212 East 29th Street
10	Lady Slipper Designs	David Steffen	Rt 3, Box 556
11	Lindquist Wild Rice	William Lindquist	Rt 1, Box 72A
12	Lorelei Studios	Lorelei Kraft	RR 1, Box 366
13	Marvin Windows	Ley Soltis	P.O. Box 100
14	Milcare Company	Wayne Sterling	P.O. Box 405
15	Minnesota Association of Wheat Growers	Marvin Zutz	P.O. Box 189
16	Newmans' Manufacturing Inc.	Doug Newman	P.O. Box 374
17	Nortech, DSC	-	4050 Norris Court NW
18	North American Industries, Inc.	James Johanneck	Box 245
19	Northwest Regional Development Comm.	Jerry Nagel	P.O. Box E
20	Pallet Minnesota, Inc.	Jim Espeseth	Box 636
21	Phoenix Industries, Ltd.	Dick Widseth	P.O. Box 455
22	Physician Engineered Products, Inc.	Larry Sundsrud	HCO 6, Box 17
23	Rivard's Quality Seeds, Inc.	-	-
24	Sea Fest	Bill Mitchell	Box 188
25	Small Business Development Center	Gullette, Arthur	BSU, 1500 Birchmont Drive NE
26	SOTA Foods, Inc.	John Smart	Box 551
27	St. Hilaire Co-op Elevators	-	P.O. Box 128
28	Thief River Falls SBDC	Jan Hoff	Thief River Falls AVTI
29	Thief River Linen	Linda Bentson	120 Eastwood Drive
30	Unifoam Products, Inc.	Ole Tweet	P.O. Box 694
31	United Satellite Systems	Dave Strong	Highway 1 West
32	Vibrosaun International, Inc.	Duane Bye	Multi Services, Ctr, Suite 6
33	Village of the Smoky Hills	Lorelei Kraft	P.O. Bos 218

	City	Phone
1	Thief River Falls, MN 56701	(218) 681-8558
2	"	"
3	Detroit Lakes, MN 56501	"
4	Crookston, MN 56716-0609	(218) 281-2985
5	Erskine, MN 56535	"
6	Thief River Falls, MN 56701-0510	"
7	East Grand Forks, MN 56721	"
8	Bemidji, MN 56601	(218) 751-6503
9	Bemidji, MN 56601	"
10	Bemidji, MN 56601	(218) 751-0763
11	Kelliher, MN 56650	(218) 647-8849
12	Park Rapids, MN 56470	"
13	Warroad, MN 56763	(218) 386-1430
14	Fergus Falls, MN 56537	(218) 736-2810
15	Red Lake Falls, MN 56750	(218) 253-4311
16	Detroit Lakes, MN 56501	(218) 847-2686
17	Bemidji, MN 56601	"
18	Red Lake Falls, MN 56750	(218) 253-4440
19	Thief River Falls, MN 56701	(218) 681-2637
20	Bagley, MN 56621	"
21	Crookston, MN 56716	"
22	Park Rapids, MN 56470	(218) 732-3357
23	Argyle, MN 56713	(218) 437-6638
24	Motley, MN 56466	"
25	Bemidji, MN 56601-2699	"
26	Park Rapids, MN 56470	(218) 732-7700
27	St. Hilaire, MN 56754	(218) 964-5252
28	Thief River Falls, MN 56701	"
29	Thief River Falls, MN 56701	"
30	Thief River Falls, MN 56701	"
31	Thief River Falls 56701	(218) 681-5616
32	Devils Lake, ND 58301-0502	(701) 662-4285
33	Osage, MN 56570	"

APPENDIX V

MINNESOTA BANKERS ASSOCIATION
500 FLAVEL BUILDING
MINNEAPOLIS, MINNESOTA 55415
(612) 338-2265

BULLETIN

ECONOMIC DEVELOPMENT

AREA ECONOMIC DEVELOPMENT MEETINGS

"TAKING CARE OF THE BUSINESS WE ALREADY HAVE"

MARCH 6 - 10, 1989

PROGRAM

The Area Economic Development Meetings will allow participants a chance to be involved in its two-hour agenda. The program will be focused on you, the banker, the problems of your business customers and how you may be able to obtain help in assisting them. Suggestions of how to access and utilize this type of help will be a major part of the program. Awareness and utilization of these resources has been valuable to bankers. Our goal is to assist others to do the same through this program. (Recently, a banker shared how a business, who was going down, was saved only because of one of these resources.)

TOPIC

Economic development - taking care of the business we already have.

SPEAKERS

CLAUDIA PARLIAMENT, Assistant Professor and Extension Economist, Department of Agricultural and Applied Economics, University of Minnesota. Claudia will draw from her personal experience as well as her business community experience as she offers ideas, suggestions, and challenges.

GORDON WINZENBURG, Director of the Brainerd Small Business Development Center. Gordon, who for 16 years was a commercial lender, brings a perspective from both sides of the table. His suggestions and ideas will prove most valuable.

RONALD JOHNSON, MBA Vice President-Economic Development and Executive Director for the Enterprise Network.

REGISTRATION/FEE

The registration fee is $20 per bank. Should the bank wish to invite an economic development professional from your community, please do. Advance registration is required so that appropriate accommodations, materials and planning can be done. REGISTRATION DEADLINE IS FEBRUARY 27.

DATES/LOCATIONS

9:00-11:00 a.m.	2:00-4:00 p.m.
Monday, March 6, 1989 St. Cloud State University SBDC President's Conference Room St. Cloud, MN	Monday, March 6, 1989 Technical Institute of Hutchinson Conference Room Hutchinson, MN
Tuesday, March 7, 1989 Winona State University Rochester Satellite of SBDC Room U246 Rochester, MN	Tuesday, March 7, 1989 Mankato Technical Institute Room C-124 North Mankato, MN
Wednesday, March 8, 1989 Murray County Courthouse Meeting Room Slayton, MN	Wednesday, March 8, 1989 Southwest Technical Institute Room 106 Granite Falls, MN
Thursday, March 9, 1989 Fergus Falls Community College Room 303 Fergus Falls, MN	Thursday, March 9, 1989 Chalet Supper Club Fosston, MN

Friday, March 10, 1989
Hibbing Community College
(in cooperation with Hibbing Community College and SBDC)
Hibbing, MN

Upon receipt of your registration, where necessary, we will provide parking information

ACKNOWLEDGEMENTS

We wish to acknowledge the assistance and cooperation in providing these programs from the following:

St. Cloud State University Small Business Development Center (SBDC)
Technical Institute of Hutchinson Small Business Management Program (SBMP)
Rochester - Winona State University (Rochester satellite of Small Business Development Center (SBDC)
Mankato Technical Institute Small Business Management Program (SBMP)
Slayton - Murray County Courthouse
Granite Falls - Southwest Technical Institute Small Business Development Center and Small Business Managment Program (SBDC and SBMP)
Fergus Falls Community College Business Program
Fosston - Farmers State Bank (Chalet Supper Club)
Hibbing Community College Small Business Development Center (SBDC)

It should also be noted that SBDC's operate under a cooperative agreement with the U.S. Small Business Administration.

Senator BOSCHWITZ. Thank you very much, Mr. Gullette. Very valuable. Tell me just a little bit about the North Country Exporting Association. It seems to me I talked to them at one point or another.

Mr. GULLETTE. I think I have attended all their conferences. I'm a board member of that organization.

Senator BOSCHWITZ. I thought they were part of the conference in Grand Rapids once about——

Mr. GULLETTE. Or possibly maybe——

Senator BOSCHWITZ. Those folks are doing a significant amount of the exporting?

Mr. GULLETTE. The last or two issues ago of Business Week, Holstein was the author, and Business Week did a special on International Trade for Small Businesses. In part, the executive director of the NCEA was the one who had Holstein up there to talk with Arctco in Thief River Falls and Marvin Window Company in Warroad.

Marvin Window Company was quoted in that article and also some statistics about Marvin Windows appeared. We had many people that thought maybe 2 or 3 percent of Marvin sales were foreign sales. In their gross sales for calendar year 1988 was $250 and 10 percent were foreign, so that's about $25 million.

Senator BOSCHWITZ. Mostly to Canada?

Mr. GULLETTE. Mostly Japan.

Senator BOSCHWITZ. Japan?

Mr. GULLETTE. In fact the Japanese foreign trade representative is the active member from Marvin NCEA. Very interesting, yes.

Senator BOSCHWITZ. I just got involved with the export of windows from Anderson to the State of Israel. And I was amazed at the shipping of windows from Minnesota into the Middle East.

Mr. GULLETTE. Yes, it's interesting the story that the Marvin family tells about getting into the Japanese market. Essentially the Japanese went up there and just about requested initially several years ago that a specific type of window for western style homes, which are still fairly rare in Japan, in square footage and window sizes. But Marvin being a custom, as opposed to production, window manufacturer, apparently has done very well in that market.

Senator BOSCHWITZ. It always amazes me how the family or businessman can just mushroom wherever they are. I was recently in Two Harbors and there was quite a large firm up there that I had never been to before. Of course Marvin Windows is an example of that, too, one would feel that they are not exactly in the mainstream up there, but they ship them all over the place.

Mr. GULLETTE. It's interesting, Marvin Window hosted one of our conferences in Warroad. In fact, part of it was a tour of the plant. And Jake Marvin went through some history, and so forth. And actually it's a post-World War II phenomena. The window portion of their operation, this is where they—when they actually started to grow by leaps and bounds.

It's also interesting, Roseau County in the economic chart that you have, economy, there you see Roseau County shows an unemployment rate that is lower than the State average and largely because of Warroad; because of Marvin Windows.

Senator BOSCHWITZ. And they have a per capita income that is 83 percent of the State average.

Mr. GULLETTE. Which is reasonably good given that region.

Senator BOSCHWITZ. What makes the east half of Polk County so relatively prosperous, that is east half of Polk County?

Mr. GULLETTE. Well, the problem is that is all the counties. That's the total county population. Per capita income would be per capita income derived for the entire Polk County because I did break out one-third of the population and one-half of the population. I frankly don't know where that would go in terms of townships, and so forth.

Senator BOSCHWITZ. I would guess that the west part of Polk County is more——

Mr. GULLETTE. It's of course agriculturally based. Now, Fosston which I believe is in east Polk County has been doing several surprising things, very well; the Mr. Carrot operation that's a relatively new operation and he has a drying plant coming right along this spring for drying vegetables, carrots, celery, and what not. And this of course adds value, processing value to these crops rather than having them shipped out. So there are several interesting things going on.

Senator BOSCHWITZ. You always find that throughout the state. I'm just amazed as I go to some of these towns, Perum is up in your neck of the woods. So I guess it's not in one of your counties it would be in the county Fergus Falls is in.

Mr. GULLETTE. That would be Morehead State.

Senator BOSCHWITZ. And they are just a humming little community. Recently I gave an award along the Iowa border, Mower County, little town along the Iowa border. And there two brothers both of whom have MS, both of whom are quite disabled, one very, very disabled, had put together a factory making parts employing a couple hundred people. And so that's just a little town is prospering very well. And I gave them an award and really was quite something to see.

And you see these stories throughout all of these towns activity that you never would have guessed is going on. I was really surprised in Two Harbors to come across this large fabricating plant doing just terrific and, you know, if you read the local print you think everything is going to hell up there but it's not the case at all.

Well, I find your charts, graphs, and other material to be very interesting and I'll review them further and appreciate your coming as a witness. I see that Ms. Bystrom has also arrived and I would ask her to come to the table but at this point we are going to take a 3 or 4 minute recess.

[A recess.]

Senator BOSCHWITZ. We'll now turn to Tracy Thompson and you said you do not have any prepared statement, is that correct?

Ms. THOMPSON. No, I do not, but I contacted Art on Friday and found out that he was going to explain the statewide program. So I thought that I would just explain a little bit about the southeastern SBDC.

Senator BOSCHWITZ. All right. Proceed.

STATEMENT OF TRACY THOMPSON, WINONA STATE UNIVERSITY, SBDC REGIONAL DIRECTOR

Ms. THOMPSON. I have been with the program for 4 years. I am not all from academia. I was hired from the private sector. Based on my qualifications of running and operating my own business and managing my father's business. I have been in business with my family for the past 12 years and feel——

Senator BOSCHWITZ. Do you continue to be in business or are you now totally occupied in this?

Ms. THOMPSON. I help oversee my father's business. I'm almost like an absentee owner, but I do take care of the financial portion of my father's business and I have a friends that I have——

Senator BOSCHWITZ. You have a what?

Ms. THOMPSON. A friend that I have subcontracted my business to.

Senator BOSCHWITZ. What kind of business is yours?

Ms. THOMPSON. I was doing accounting and helping small businesses in their collections, doing just the basic bookkeeping, recordkeeping, accounting for the small business person and helping in collections, and accounts receiveable. And my father's in the trucking business, and I have helped out in his business. I take care of all the finances and financial statements for my father out of my home.

I felt that when I started working for SBDC that there might be a conflict of interest with clients coming in and seeing me as an SBDC director offering a free service and then having a business on the side of my own. So I more or less gave the business to my girlfriend. So that's where the experience lies and that's what I was hired for. And I have my Bachelor's Degree in business and administration from Winona State.

We have eight counties in southeastern Minnesota. At the Winona State University regional center, we have satellites in Rochester and in Red Wing. Rochester is at the Rochester Community College in Red Wing we have a satellite at the vocational institute. In the last year we have gone into the banks in the smaller communities and put in little SBDC desks to help expand SBDC services to our 8 county area.

In the past we found that Rochester, Winona, and Red Wing were benefiting from our funding which was not fair so we went and cooperated with some of the banks and put desks there and marketed the services through the banks. We have cooperation with their secretaries or bookkeeper to explain what SBDC programming is. We have an 800 number and within 24 hours we have a counselor assigned to them.

Senator BOSCHWITZ. Would you go and sit in one of those banks yourself or——

Ms. THOMPSON. In the beginning I did. I staffed the offices, or the assistant directors or SCORE personnel from the Winona chapter.

Senator BOSCHWITZ. I asked the same thing to Mr. Gullette. SCORE, is that active in your part of the state?

Ms. THOMPSON. Yes, SCORE is very active out of the Winona and Rochester chapters. And we work with them primarily in referring cases back and forth. If we have a case for instance where as it

does not need a lot of technical assistance then we will assign that case to a SCORE member, especially someone that wants to start a business.

We find that there's much more of a benefit between the two to actually work together with a SCORE person who has been in that particular business. When they want a cash-flow and would like to have that projected for 5 years, we do that we our office. We are looking at, I believe, 8 or 9 different modules that the SBA requires of us in providing counseling which puts us in other areas that SCORE is not capable of handling such as Government procurement, hazardous waste management, or international trade. Anything that's specialized like that they will then refer back to us, but——

Senator BOSCHWITZ. Pardon me for interrupting you, but there was—in one of the hearings that I have held about small business development, I thought a very good and aggressive group that is recognized by a young woman from southeastern Minnesota, what's the name?

Mr. COYLE. Dale Levy.

Ms. THOMPSON. Dale Leaf.

Senator BOSCHWITZ. You worked together with her?

Ms. THOMPSON. Yes, I do. We try to identify all of the program or economic development system providers in our 8 counties and then we refer back and forth with one another. As an example, right now we are working on a rather large case, we are looking at putting together a $1.5 million business plan for a person that wants to put in a tourism/restaurant, and I can't really give you much more without telling you who it is, but Dale's organization asked us to help identify all the different funding sources that would be able to compliment this package, looking at SBA, challenge grants out of the Southeastern Minnesota Initiative Funding, and at private sources of funding. They also wanted help with all of the cash-flows and in the financial analysis of that package. That case will be assisted by Dale's organization and ours. We try to leverage our resources.

Senator BOSCHWITZ. Are there other such organizations in your 8 county area such as hers, and what is the name of that organization?

Ms. THOMPSON. Southeastern Minnesota Development Corp.

Senator BOSCHWITZ. Yes, I thought that was—I was quite impressed with their activities when they testified, something we had in St. Cloud. Are there others like her in your area?

Ms. THOMPSON. We have them, and have worked with SCORE and the Southeastern Minnesota Initiative Fund.

Senator BOSCHWITZ. Yes. Is Doctor the proper title?

Mr. GULLETTE. Unfortunately it's not but you may use it.

Senator BOSCHWITZ. Well, Art, do you have such a group up in your neck of the woods, too?

Mr. GULLETTE. As in initiative funds you mean?

Senator BOSCHWITZ. Yes, not necessarily a fund, but an initiative?

Mr. GULLETTE. Yes, actually this is a statewide program. The McKnight Foundation put together and each of the 6 out-state, non-7 county metro area has an initiative fund. And it's connected

with the—for example, I'm the Northwest Minnesota Initiative Fund. They call it a fund because they fund a variety of programs. And generally speaking economic development is one of the programs identified in your mission statement, if that's in answer to your question.

Ms. THOMPSON. So we do try and work with those organizations. That is one of the problems that we have statewide. We really don't know how many different southeastern Minnesota development corps. there are throughout all 8 counties. We know we have one in Rushford because it's our neighbor.

It would be nice if we could put forth some effort to develop some sort of a catalog or some sort of a data base that would help us identify all of the programs not only in our backyard but statewide. We do a lot of counselings in business startups at Winona State but at every chance we get we do like to refer those to the SCORE persons. We were probably—we are bringing in approximately 5 to 7 requests for counseling a week at this time. And that's just out of the Winona office.

We did successfully put together an outreach program throughout southeastern Minnesota but right now we have a problem with identifying private sector and other resources that would help us counsel with all these individuals.

We at Winona State are looking forward to meeting whomever it is that wants to take over the program. Somebody that has have strong leadership skills and someone that really wants to be active in helping us identify what it is that we should be doing out there and who else is doing it. We look forward to meeting anyone that can help us leverage our resources and someone that can perhaps help us on the monetary side of providing economic development in southeastern Minnesota. That's all I really have to say.

Senator BOSCHWITZ. Thanks. Now we turn to Bob Heller.

STATEMENT OF ROBERT E. HELLER, DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF MINNESOTA-DULUTH, DULATH, MN

Mr. HELLER. Thank you.

Senator BOSCHWITZ. Do you have a prepared testimony?

Mr. HELLER. Yes, I have handed it out, the copy of my prepared testimony, you should have it there. Basically what I have done in my prepared testimony is give a little background about myself and the Small Business Development Center and then try to respond to the questions that were directed to me in terms of requests for testimony. I will try to supplement those in light of some of the discussions today in hopes it might be helpful to you.

I would like to thank you for inviting me to testify. And I did get permission from my respective organization, that is the University of Minnesota-Duluth, to come today. And the Dean's office is paying for my trip rather than the Small Business Development Center so that I can use those funds for better purposes.

Senator BOSCHWITZ. Well, thank the Dean.

Mr. HELLER. I will do that. One of the things that you'd asked earlier today about the program languishing from a leadership standpoint, I think that may be true, however, there are those of

us that as regional directors are continuing to operate the program so we can effectively provide the service that's required. I do know that a couple of areas have pulled back their services only because of the uncertainty of the funding. Fortunately the University of Minnesota-Duluth School of Business has a strong interest in economic development and has also a strong belief that the program will continue. So they have not required me at all to pull back my program.

We do have two satellite offices in northeastern Minnesota; one located at Hibbing Community College and one at Mesabi in Virginia. In addition to that on my staff I have what I call my circuit rider who goes up the North Shore to Grand Marais and down the other direction toward Moose Lake into Carlton County.

Senator BOSCHWITZ. Is that the southern——

Mr. HELLER. Those are the 4 counties in which I am responsible: Cook, Lake, St. Louis, and Carlton counties.

Senator BOSCHWITZ. Do you know the guy in Lake who I'm referring to?

Mr. HELLER. Yes, I'm trying to think of the business name, it doesn't come to mind, but the fabricator is well known. But if you could think of the name and I'd think of the name, we'd be OK.

Senator BOSCHWITZ. I wrote it down a few days ago.

Mr. HELLER. The other thing in terms of trying to——

Senator BOSCHWITZ. I found a fair degree of optimism which I hadn't expected to. One of the more difficult counties to reach because it doesn't have an airport. And it's a pretty county but if you drive down that County you don't see anything for 50 miles. One of my more interesting drives around the State.

Mr. HELLER. Sometimes there is a moose or two on the road.

Senator BOSCHWITZ. And a lot of trees. But there was a good deal of activity and a good deal of optimism in that community.

Mr. HELLER. Well, I think so. There's a number of reasons for that. One, I think we felt that we have bottomed out in northeastern Minnesota. There's always a little more optimism when the mines seem to be back to work, a little bit. And there are lots of other activities going on in economic development, to broaden the basis of understanding of what the economy is all about.

In terms of the types of clients that we get in, we did a survey from 1986, of our clients. We found about two-thirds of those clients were startups—people with startup ideas and I guess a little higher number than what Art had for his. And maybe the nature of that was in 1986 the mines were fairly well down so we have a lot of the miners thinking about going into business.

Of the number of startups that we were able to contact, about 20 percent of those have actually gone into business in some form or another. Of the other 80 percent that did not go into business, 70 percent responded they did not go into business because they found out there was no market for their idea, but 23 percent found there was no financing for their idea. And then the rest didn't go into business for a variety of reasons. The marketing feasibility was a surprise to me because most people will say they don't go into business because they don't have the money but there are a lot of good creative ideas for which there were no markets.

And I think the Small Business Development Centers do provide a major source of education to those people so they can at least make a decision as to whether to go or not to go based upon feasibility and therefore they save themselves from heartbreak or bankruptcy.

The other thing that we've done, I would like to point out, is the Entrepreneurial Development Program, which is the new program we started within the last year where we try to identify persons who have business ideas that also have entrepreneurial characteristics, whatever those might be. People seem to be aggressive, assertive, and no matter even if you tell them that their idea is bad, they're going to go ahead and go into business and prove to you they're wrong. And we tried to identify those people and put them through a program which assisted them in developing a business plan.

In my printed remarks I talked about 23 businesses beginning initial training; nine had either begun or expanded their business. When I talk about expanding we really view those people as start-ups because many of them were home-based, they were looking to move to a commercial location. So we felt that 9 out of 23 is a fairly good number in terms of getting people off the ground and started.

In addition, five have obtained the required financing. We continue to work with nine persons to complete their training and hopefully secure financing for them. Today, in fact, we have begun the screening for the next round of trainees, the program for which will be held up in the Two Harbors area. We have tried to spread that program around. It's a really interesting program to deal with in terms of identifying entrepreneurs and helping them to get started.

In any case, that's a little bit of background about our center. My observations with respect to the mission of the Small Business Development Center are based upon the mission as it relates to my experience in working with small businesses. I, like Tracy, come out of the private sector having spent 10 years working for another entrepreneur you may know, Jeno Paulucci.

Senator BOSCHWITZ. Yes, I do see that in your resumé. And then I noticed it says date and place of birth January 13, 1941. What's the place?

Mr. HELLER. Hinsdale, IL, outside of Chicago.

Senator BOSCHWITZ. I see that you went to Depauw University, that's where the vice-president went.

Mr. HELLER. I was there before him.

Senator BOSCHWITZ. You're a little older but not much.

Mr. HELLER. And certainly working for Jeno was the basis for, probably, my primary interest in small businesses. When I went back to a law office after Jeno decided to move to Florida, why I found that I preferred the entrepreneurial spirit over the lawyer atmosphere of a law office. And that got me back up to the University of Minnesota and Small Business Development Center Program.

Senator BOSCHWITZ. That must be quite an experience hanging around with Jeno for 10 years. I can imagine that you got charged up to the point of being a lawyer was rather dull by comparison.

Mr. HELLER. Well, certainly Jeno had a way of trying to educate one. Whenever I offered him some marketing ideas he told me to stick to lawyering, but that market is his field.

Senator BOSCHWITZ. I can hear him say it.

Mr. HELLER. And it's usually not in a quiet tone of—anyway, the experience that I gained from Jeno was invaluable.

I basically conclude that the technical assistance of the Small Business Development Center provides an invaluable resource for small business owners and those who aspire to start their own businesses. The program in Minnesota, as we have seen today, has been administered by a lead center most recently the College of St. Thomas.

In my view, the lead center has the role of delivering the required services throughout its assigned territory, securing primarily sub-contacts required by the law creating the Small Business Development Center and providing creative leadership throughout its network in the field of economic development so as to assure successful job creation, expansion, and retention. For this type of program to work best, the lead center must provide the necessary leadership to deliver highly competent technical assistance setting an example for the subcenters in meeting the demands and to administer the program in a businesslike manner. In this regard the lead center should be one which can provide stable basic financial support for the network and administer the program without the usual political jousting.

When the College of St. Thomas announced it's withdrawl as a lead center, a number of educational institutions, including my own, were extremely interested in applying to become the lead center. When the Governor of the State of Minnesota recommended that the Greater Minnesota Corporation become the lead center, most of the interested institutions withdrew from the application process or at least put it on the table to see what would happen. While initially viewing the prospect of working with the GMC with skepticism, because of its newness, I did become more enthusiastic as time passed, primarily because I felt that an independent agency might be the best entity for being the lead center.

First, the Greater Minnesota Corporation, if everything went perfectly, could eventually be a source of more than adequate funding for providing the required match.

Second, the Greater Minnesota Corporation does not have strong ties to any one education system and thereby was in a good position to administer the program fairly without being in a position of what I call, "forced favoritism." By that I mean that given the interest of various educational institutions in the process, the technical institutes, State universities, or community college system or the University of Minnesota, we might tend to favor related institutions over those of the others. And therefore I thought that a lead center not having those connections would probably be in the best position to judge fairly the effectiveness of programs throughout the State.

But certainly the College of St. Thomas, a private college was similarly situated in that it did not have any related institutions in the network, so to speak.

Third, the Greater Minnesota Corporation was perceived as being in the business of the economic development at least by me, although as it turned out, our State legislators thought it had a narrower definition of economic development. With respect to the current situation, that is the transfer of the lead center responsibility to the Department of Trade and Economic Development, I have the same opinion. The Small Business Assistance Office with Charles Schaffer, is perhaps the ideal place for the lead center if it is to be located within a State institution. The Minnesota Small Business Assistance Office has a long history of working with small businesses; its publications are outstanding tools for the small business person or the person thinking about going into business.

Second, many Small Business Development Centers have worked directly with the Minnesota Small Business Assistance Office in delivery or programs and services to small business. For example during the last 3 years, my SBDC has worked with the Small Business Assistance Office to present what we call our access series, "Access to Capital," "Access to Government." Both of those programs were very successful and become models to similar programs throughout the State and the country.

You may—in the, "Access to Government Program," we invited 35 State and Federal agencies that deal with small businesses to present their programs to the local business community. We had over 80 businesses attend that particular program which was held about a year ago or so. It was—we thought, a very successful program and it was driven in part by the Minnesota Small Business Assistance Office as well as the SBDC.

In addition, the Minnesota Small Business Assistance Office and our SBDC jointly planned and produced a series of small business issues programs which were telecast on public television last fall. More of these are planned for the future depending on our budget. Therefore, I feel the Minnesota Small Business Assistance Office has a good working knowledge and understanding of the functions of the Small Business Development Center and brings a respected and creative force to the leadership of that program.

Third, with this reputation and certainly if I'm not being too presumptive, however, the State legislators have left, the support of our State legislators the Minnesota Small Business Assistance Office might be able to provide a stable base for a required match. I think Ted Fredrickson talked about the problems that St. Thomas had in terms of match and what their goals were. Fourth, the Minnesota Small Business Assistance Office is not tied directly to any of the entities now in the network, and therefore is in an excellent position to direct the program to provide the best possible service.

To summarize, in my view the preferred institution for the lead center is one that is financially sound; is willing to provide its share, if not more, of required match; is free from political or institutional favoritism; has a mission of fostering economic development for small business; and will provide creative leadership of the Small Business Development Program. This concludes my formal remarks. I want to thank you again for inviting me and your interest in small business.

[The prepared statement of Mr. Heller follows:]

STATEMENT OF ROBERT E. HELLER, DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER, 150 SBE, UNIVERSITY OF MINNESOTA-DULUTH, DULUTH, MN 55812

MARCH 13, 1989

TO THE HONORABLE MEMBERS OF THE UNITED STATES SENATE SMALL BUSINESS COMMITTEE:

Thank you for inviting me to testify before this committee about the Small Business Development Center Program here in Minnesota. My name is Bob Heller, and I am the Director of the Small Business Development Center located within the Center for Economic Development at the University of Minnesota-Duluth. I am responsible for delivering Small Business Development Center services to the four northeastern counties in the Arrowhead Region of Minnesota. I have been Director since August of 1986. Prior to that time I engaged in the private practice of law. For more details about me, please see the exhibit attached to this statement. Also prior to my becoming the Director of the Duluth Small Business Development Center, I was aware of the Small Business Development Center and had participated as a presenter at Small Business Development Center training programs.

During 1988 the Duluth regional Small Business Development Center gave technical business assistance to 318 new clients, up from 247 during 1987. During the fourth quarter, four of these clients received start-up financing totaling $145,000 and created five full-time-equivalent jobs with the prospect for creating another 7-10 jobs during the next twelve months.

In addition, in cooperation with the Center for Economic Development at UMD (with funding provided jointly by the SBA through the Small Business Development Center, the Northeast Minnesota Initiative Fund and the School of Business and Economics at UMD), we created and undertook an "Entrepreneurial Development Program" which is designed to identify persons with entrepreneurial characteristics and a business idea. These people are enrolled in a ten week training course, the final product of which is a business plan. Upon completion of the business plan by the participant, the Small Business Development Center and the Center continue to assist them on an individual basis to secure financing for the business. Of the 23 businesses that began the initial

training, 9 have either begun or expanded their business and out of that number, 5 have obtained the required financing. We continue to work with nine persons to complete their training and to secure financing for them. Today, in fact, the screening has begun for choosing the next round of trainees.

This committee before which I am appearing has asked me to offer my views about the operation of the Small Business Development Center Program, as well as the preferred institution for managing this program in the years ahead. My observations are based on the mission of the Small Business Development Center as it relates to my experience in working with small businesses.

As a lawyer and a business analyst for an entrepreneur for the last twenty years, I have concluded that the technical assistance the Small Business Development Center network provides is a valuable resource for small business owners and those who aspire to start their own business. The program in Minnesota has been administered by a lead center, most recently the College of St. Thomas. The lead center has the role of (1) delivering the required services throughout its assigned territory; (2) securing, primarily through subcontracts, the match required by the law creating the Small Business Development Center; and (3) providing creative leadership throughout its network in the field of economic development so as to assure successful job creation, expansion and retention. For this type of program to work best, the lead center must provide the necessary leadership to deliver highly competent technical assistance, set an example for the subcenters in meeting the match and administer the program in a business-like manner.

In this regard, the lead center should be one which can provide stable and basic financial support for the network and administer the program without the usual political joustings. When the College of St. Thomas announced its withdrawal as the lead center, a number of educational institutions, including my own, were extremely interested in applying to become the lead center. When the Governor of the State of Minnesota recommended that the Greater Minnesota Corporation become the lead center, most of the interested institutions withdrew from the application process. While initially viewing this

prospect with some skepticism because of the Greater Minnesota Corporation's newness, I became more enthusiastic as time passed, primarily because I felt that an independent agency might be the best entity for being the lead center. First, the Greater Minnesota Corporation could eventually be a source of more than adequate funds for providing the required match. Second, the Greater Minnesota Corporation did not have strong ties to any one educational system and thereby was in a good position to administer the program fairly without being in a position of forced favoritism. As many of you may know, many of the Small Business Development Center sub-centers are located in technical institutes, state universities and community colleges. If the lead center were, for example, a state university, such institution might be perceived as showing favorites if it chose other state universities as sub-centers rather than unrelated institutions, such as technical institutes. The College of St. Thomas, a private college, was similarly situated in that it did not have any "related" institutions in the network. Third, the Greater Minnesota Corporation was perceived as being in the business of economic development.

With respect to the current situation, that is, the transfer of lead center responsibility to the Department of Trade and Economic Development of the State of Minnesota, I hold the same opinion. The Minnesota Small Business Assistance Office is, perhaps, the ideal place for the lead center to be located. First, the Minnesota Small Business Assistance Office has a long history of working with small businesses; its publications are outstanding tools for the small business person or the person thinking about going into business. Second, many Small Business Development Centers have worked directly with the Minnesota Small Business Assistance Office in the delivery of programs and services to small business. For example, during the last three years my Small Business Development Center has worked with the Minnesota Small Business Assistance Office to present "Access to Capital" and "Access to Government" programs. Both of these programs were very successful and have become models for similar programs throughout the state and the country. In addition, the Minnesota Small Business Assistance Office and the Duluth Small Business Development Center jointly planned and produced a series of small business

issues programs which were telecast on public television last fall. More of these are planned for the future. Therefore, the Minnesota Small Business Assistance Office has a good working knowledge and understanding of the functions of the Small Business Development Center, and brings a respected and creative force to the leadership of the Small Business Development Center program. Third, with this reputation and (if I am not being too presumptuous) the support of our state legislators, the Minnesota Small Business Assistance Office might be able to provide the stable base for the required match. Fourth, the Minnesota Small Business Assistance Office is not tied directly to any one of the entities now in the network and is in an excellent position to direct the program to provide the best possible service.

To summarize, the preferred institution for the lead center, in my view, is one that is financially sound, is willing to provide its share, if not more, of the required match, is free from political or institutional favoritism, has a mission of fostering economic development for small businesses and will provide creative leadership of the Small Business Development Center program.

I want to thank you for your interest in small business. I would be happy to answer any questions you might have.

Thank you for giving me this time to present my views.

CURRICULUM VITAE

NAME: Robert E. Heller

DATE AND PLACE OF BIRTH: January 13, 1941

FAMILY STATUS: Married to Lois Jane Heller, Associate Professor of Physiology, University of Minnesota, Duluth, School of Medicine
Two Children: John (age 20) and Suzanne (age 18)

EDUCATION:

Undergraduate: Depauw University
Greencastle, Indiana
Major field – Political Science (honors program)
Minor field – Economics and Accounting
B.A. degree with honors conferred June 1963

Graduate: University of Michigan Law School
Ann Arbor, Michigan
J.D. degree conferred June 1966

PROFESSIONAL EMPLOYMENT:

Director, Small Business Development Center University of MN., Duluth	1986-current
Fryberger, Buchanan, Smith & Frederick Attorneys	1982-1986
Paulucci Enterprises. Duluth MN	1972-1982
Corporate Attorney	1972-1973
General Counsel	1973-1982
Vice President	1974-1980
President	1980-1982
Paulucci Family Foundation. Duluth MN Director and Secretary	1973-1982
J.F.P. & Associates, Inc. Duluth MN Director, General Counsel & Secretary	1973-1982
Paulucci Publication, Inc. New York, NY Director, General Counsel & Secretary	1979-1982
Jeno's Inc. Duluth MN General Counsel & Secretary	1980-1982
Paulucci Venture Capital Corporation. Duluth MN Director & Vice President	1975-1978
Defrees & Fiske Law Firm, Chicago, Illinois	1966-1971

OTHER PROFESSIONAL AND CIVIC ACTIVITIES:

Private Industry Council Board Member	1987-Current
North Star Community Development Corporation Duluth, MN Director & Treasurer	1986-Current
Spectra, Inc., Duluth MN Director & Treasurer	1983-1988
Lake Nebagamon Shore Property Owners Assn. Lake Nebagamon, WI Director	1985-1987
Duluth Arena-Auditorium Board President	1979-1985 1983-1985
United Way of Duluth	1976-1979
Duluth City Charter Commission	1976-1979
Lyric Block Development Corp. Duluth MN Director	1978-1981
Miller Hill State Bank Director	1980-1982

PROFESSIONAL MEMBERSHIPS:

American Bar Association
Minnesota State Bar Association
Eleventh District Bar Ethics Committee
Illinois State Bar Association
Wisconsin State Bar Association

PUBLICATIONS:

Jon L. Pierce and John W. Newstrom, contributing author, pp 145-150
"The Managers Bookshelf" - Harper & Row - 1988

Fryberger, Buchanan, Smith & Frederick, P.A. Law Update
"Trademarks" - 1985
"Employee Right to Know Act" - 1986

LECTURER OR INSTRUCTOR:

UMD Small Business Development Center & Score: Going Into Business Seminar
November 19, 1985 and April 8, 1986

College of St. Scholastica Entrepreneurship Program: Business Organizations
April, 1986, 1987

Department of Accounting, Univ. of MN. Duluth, "Business Law"
1987 (Spring, Fall & Winter quarters)
1988 (Fall quarter)

Department of Management Studies, Univ. of MN. Duluth
"Field Management Studies" 1986-Current

COMMUNITY ACTIVITIES:

Pilgrim Congregational Church
President of the Congregation 1983-1987
Board of Trustees 1988-Current

Eastern Little League Baseball
President & Coach 1977-1980

East Youth Basketball League
Coach 1977-1982

East Youth Softball League
Coach 1985-1987

Duluth Curling Club 1980-Current

Kiwanis Club of Duluth 1974-Current
Director 1976-1981
President 1980-1981

Senator BOSCHWITZ. Well, I hope your assessment is correct that they are going to be aggressive and independent leaders and not deal in what you said back there, "The usual political jousting." I dealt with a little of that last week, as a matter of fact, more than usual and am pleased to get that behind me.

You said on page 1 that you gave technical assistance to 318 new clients. That doesn't necessarily mean clients who wanted to start new businesses.

Mr. HELLER. No, about two-thirds of that would be people interested in new business. The others are people in business who have particular needs or are floundering in their business and need marketing help, financial help, somebody to come in and do what I would call a management audit.

Senator BOSCHWITZ. Thanks very much.

Mr. COYLE. Just a couple questions of the SBDC representatives. Have you been able to identify at present, either of the three of you, any discernable impact on the services that you're able to provide to your constituencies due to the transition from St. Thomas to GMC and now onto the Department of Trade and Economic Development?

Mr. HELLER. Certainly with respect to my own SBDC, not yet. If the money is not in place by the end of the quarter in some form, then I would suspect that my institution would have to take steps to be fiscally sound. So far we have been able to maintain a program at the budgeted level for the first quarter.

Mr. COYLE. Mr. Heller, you in particular, as I recall, referred to the fact that a couple programs had been withdrawing a bit perhaps out of concern of where the program was going to be in a couple of months. Are you able to identify those programs?

Mr. HELLER. Specifically I spoke to the regional director at St. Cloud. He said his program had been cut back for the time being.

Mr. COYLE. What does "cut back" mean, if you know?

Mr. HELLER. He's been advised not to enter into any outside contracts with consultants. Many of us will enter into contracts with consultants that—thereby not obligating his host institution for those funds should they not come back.

Mr. COYLE. Any other centers you're aware of?

Mr. HELLER. I'm not sure, I remember we had a lot of conversations where some people were saying they were holding back pending more definite statements as to where the lead center would be.

Mr. COYLE. Ms. Thompson, Mr. Gullette, any comments on those lines whether your programs have been curtailed or limited in effect?

Mr. GULLETTE. The program has been limited but the impact——

Senator BOSCHWITZ. Program what?

Mr. GULLETTE. The program has been limited; however, the impact of the business community would not be noticed. For example, we are not technically under contract now and we have not been since December 31, 1988, with our three satellites because we—the accounting office of Bemidji State University does not feel confident about the funding and they were talking about $55,000, did not feel for sure about the funding. And second, we did not have a cooperative agreement so we did not go into details of the things we would be expected to perform, although I imagine it

would be much like 1988, but for those reasons. Now, the one in Grand Rapids is going very well, no problem. They feel confident the funding will be there. In other words some time. They were in a position with their total budget to be able to handle this cash flow problem. I know the one in Thief River Falls has had, you know, some concern at the technical institutes, but the person is under contract and doing consulting and would not be noticed by the business community. However, as soon as we get the funding they would very much like to get those contracts.

Now, the third one. International Falls, the executive director of the county organization has been replaced and therefore are in some amount of transition there. But anyway they are not under contract so the impact on BSU that we are not under contract with our satellites, however, the 2 and 3 satellites are performing as they always would because they were using funds and host duties. The third one in International Falls is somewhat in a state of flux now.

Mr. COYLE. Ms. Thompson, any comments?

Ms. THOMPSON. We have to, through the State university system, enter into contractual relationship between Winona State and the satellites for the monies that we will subcontract to them. I, as the regional director, have not signed those contracts because I would then be obligating the Winona State University to those dollar amounts. So that would take approximately 3 months for those contracts to be processed. They, on the other hand, feel confident that the money will be provided and they have not discontinued services; we just have not processed the contracts.

Mr. COYLE. Thank you very much. Just one other question then, generally to the three of you. Has the absence of a State director for the lead center posed any sort of a difficulty for you in terms of administration of your programs?

Mr. GULLETTE. My primary concern is that right now we should be starting preliminary planning for calendar year 1990, in terms of our proposal which generally has to be in by July. And we definitely need a statewide director to do this. This is my primary concern.

Ms. THOMPSON. Some of the directors in the southern part of the State feel rather insecure that they do not have somebody in a leadership role. Therefore, they have pulled back as far as providing services throughout their service territory. I just think that we have all felt a little bit left astray because it's been August that we found out that we would not have a lead school and it is—now we are ending our first quarter and we still don't see this new leadership that is going to take us and help us in developing a much stronger and more respectful program throughout the State. I think we are eager to find that person. We are waiting for that individual to show us what positive direction we are going to.

Senator BOSCHWITZ. Well, that's a good message to give people to—so that they can hear it from the field, so to speak, and like everything else it needs to have a leader. We will now turn to Marcia Bystrom.

STATEMENT OF MARCIA BYSTROM

Ms. BYSTROM. Senator, I'm going to read from my notes because I've been accused too many times for being too long winded. And I fear I might get on a tangent if I don't stay directed. My name is Marcia Bystrom. I've been involved in the small business community in Minnesota for many years. I chaired the Minnesota delegation to the White House Conference on Small Business in both 1980 and 1986. I have been on the board of the Minnesota Chamber of Commerce for 9 years and currently serve on their executive committee. May I say I do not speak for these groups; I'm here as an individual. I served as Associate Administrator for Women Business Enterprise in the Small Business Administration in Washington, DC in 1980 and 1981. I have been an aggressive advocate of the Small Business Administration and its various programs for many years.

Senator BOSCHWITZ. I would certainly concur with that, being an aggressive advocate. Both of us have been around a lot of years and it's beginning to tell on us I think.

Ms. BYSTROM. I must say, though, I have no vested interest in any of those programs. I am here as a concerned small business advocate.

Senator BOSCHWITZ. You spelled President Reagan's name wrong.

Ms. BYSTROM. Oh, I did, I'm sorry. I typed this myself so I am not responsible for the typographical errors. Yes, so soon we forget.

When the Reagan Administration threatened to move the SBA to the Department of Commerce, I actively lobbied against that move because I saw it as a first step toward rendering the agency ineffective. I am also a critic of the agency.

The small business people whom I represent are realistic about the agency's effectiveness and have at different times in the past, recommended ways in which the agency could be improved. I'll be glad to share some of those suggestions at the appropriate time and in fact your office has received copies of documents that Congress occurred starting before your bill 3 or 4 years ago when the move to the Department of Commerce was first suggested.

Today we are here to discuss the Small Business Development Centers and their future relationship with a Minnesota based organization. To do this I must look at the relationship with St. Thomas College. I was extremely disappointed when I heard that St. Thomas College ended the relationship with the SBDC's. St. Thomas was, in my opinion, the ideal institution in Minnesota to sponsor the SBDC Program. The answer to why it was becomes my definition of the criteria I would use to approve a new organization. Why was St. Thomas such a good fit with the SBDC program?

It is a credible institution; well regarded in this State especially for its business and entrepreneurial programs. St. Thomas College gave credibility to the SBDC Program. The SBDC's benefitted from this relationship. Why does St. Thomas bring credibility? There are many reasons. First, it operates for the most part in a non-partisan and non-political, political with a capital P, environment. That is not to say that the organization does not deal with the realities of a political environment, but its mission does not get by blurred by any need to get a politician re-elected. The leaders and executives

at St. Thomas are there based upon performance, not based on an election.

Second, St. Thomas offered flexibility because is has a relatively small administrative structure; problems could be solved quickly without involving many layers of decisionmakers.

Third, St. Thomas is known for its creative environment. As an institution it has encouraged innovation among its staff. There is a "can do" attitude that is part of its reputation. It boldly and aggressively responds to the needs of its students. This attitude was reflected in this relationship with the SBDC.

Fourth, St. Thomas represented private sector involvement with the SBDC Program. Having the lead institution grounded in the private sector is desirable in bringing the business experience into the delivery of a program to the business community. Having the lead organization in a Government bureaucracy has not been an ideal situation. It is not a good balance of perspectives, it does not expose the program to people with business experience.

Last, and related, St. Thomas provided accountability perhaps different from a Government bureaucracy. A college like St. Thomas must constantly be aware that its future funding depends largely on its delivering a quality product or service. There is competition for these services. Whereas this same accountability and quality control is not, unfortunately, part of our Government system.

To summarize, the criteria I used to define the best sponsor for the SBDC program include credibility with the small business community; a non-partisan, non-political environment; a non-bureaucratic operating culture; a creative "can do" environment; private sector involvement; accountability based on competition. The overriding issue in these criteria is my belief the SBDC Program can be managed more effectively in the private sector with a strong relationship with the State and Federal Governments. Keeping the operations in the private sector will encourage a quality product or competition will enforce a change. Putting the operation in the Government will eliminate any quality control mechanism through competition.

I would rather have my State use my tax dollars to pay a private sector corporation the expenses of operating the program than to use my tax dollars to increase the Government's bureaucracy. The Congress and administration should review the laws and regulations to identify those factors which discourage the private sector's involvement. The State should be willing to recognize that contracting with the private sector for the administration of the SBDC Program makes sense.

In the final analysis, the effectiveness of the SBDC Program will ultimately depend on the people involved. The people must want to work with the program; they must want it to succeed; they must want to get involved and believe in the mission, no matter where the program goes, whatever institution houses it. If the individuals involved are building empires, marking time waiting for retirement, not willing to "rock the boat" or going "by the book," the program will be doomed to immediate mediocrity. This is an especially dangerous situation, I think, with the Government bureaucracy where expanding budgets is a common goal and where civil

service laws make it very difficult to remove staff from their position. If the program becomes housed in a Government institution, I believe it is imperative to establish a strong advisory group composed of individuals from the private sector who have no vested interest in the program; who would be a catalyst for creative and meaningful program delivery. Thank you for the opportunity to speak.

[The prepared statement of Ms. Bystrom follows:]

STATEMENT BY MARCIA BYSTROM

March 13, 1989

My name is Marcia Bystrom. I have been involved in the small business community in Minnesota for many years. I chaired the Minnesota Delegation to the White House Conference on Small Business in both 1980 and 1986. I have been a board member of the Minnesota Chamber of Commerce for 9 years and currently serve on their executive committee. I served as Associate Administrator for Women Business Enterprise in the Small Business Administration in Washington, D.C. in 1980 and 1981. I have been an aggressive advocate of the SBA and its various programs for many years.

When the Reagan administration threatened to move the SBA into the Department of Commerce, I actively lobbied against that move because I saw it as the first step towards rendering the agency ineffective. I am also a critic of the agency. The small business people whom I represent are realistic about the agency's effectiveness and have at different times in the past recommended ways in which the agency could be improved. I would be glad to share some of these suggestions at an appropriate time.

Today we are here to discuss the Small Business Development Centers and their future relationship with a Minnesota based organization. To do this I must look at the relationship with St. Thomas College. I was extremely disappointed when I heard that St. Thomas College ended the relationship with the SBDC's. St. Thomas was in my opinion the ideal institution in Minne-sota to sponsor the SBDC program. The answer to why it was becomes my definition of the criteria I would use to approve a new organization. Why was St. Thomas such a good fit with the SBDC program? It is a credible institution -

well regarded in this state especially for its business and entrepreneurship programs. St. Thomas gave credibility to the SBDC program- the SBDC's benefited from this relationship. Why does St. Thomas bring

credibility. There are many reasons. First, it operates for the most part in a non-partisan, non Political environment. That is not to say that the organization does not deal with the realities of our political environment. But its mission does not get blurred by any need to get a politician re-elected. The leaders and the executives of St. Thomas are there based on performance not based on an election. Second, St. Thomas offered flexibility because it has a relatively small administrative structure; problems could be solved quickly without involving many layers of decision makers. Third, St. Thomas is known for its creative environment. As an institution it has encouraged innovation amongst its staff. There is a "can do" attitude that is part of its reputation. It boldly and aggressively responds to the needs of its students. This attitude was reflected in its relationship with the SBDC. Fourth, St. Thomas represented private sector involvement with the SBDC program. Having the lead institution grounded in the private sector is desirable in bringing a business experience into the delivery of a program to the business community. Having the lead organization in a government bureaucracy is not an ideal situation, is not good balance of prospectives, does not expose the program to people with business experience. Last, and related, St. Thomas provided accountability perhaps different from a government bureaucracy. A college like St. Thomas must be constantly aware that its future funding depends largely on its delivering a quality product or service. There is competition for its services. Whereas this same accountability and quality control is not unfortunately part of our government system.

To summarize, the criteria I use to define the best sponsor of the SBDC program include:

1) Credibility with the small business community;

2) A non-partisan, non-Political environment;

3) A non bureaucratic operating culture;

4) A creative, "can-do" environment;

5) Private sector involvement;

6) Accountability based on competition.

The over riding issue in these criteria is my belief that the SBDC program can be managed more effectively in the private sector with a strong relationship with the state and federal governments. Keeping the operations in the private sector will encourage a quality product or competition will force a change. Putting the operation in the governments will eliminate any quality control mechanism through competition. I would rather have the state use my tax dollars to pay a private sector organization the expense of operating the program than to use my tax dollars to increase the government's bureaucracy. The Congress and administration should review the laws and regulations to identify those factors which discourage the private sector's involvement. The state should be willing to recognize that contracting with the private sector for the administration of the SBDC makes sense.

In the final analysis, the effectiveness of the SBDC program will ultimately depend on the people involved. The people must want to work with the program. They must want it to succeed. They must want to get involved and believe in the mission. No matter where the program goes-whatever institution houses it, if the individuals involved are building empires,

marking time waiting for retirement, not willing to "rock the boat", or going "by the book," the program will be doomed to mediocrity. This is an especially dangerous situation within the government bureaucracy where expanding budgets is a common goal and where civil service laws make it very difficult to remove staff from their position. If the program becomes housed in a government institution, I believe it is imperative to establish a strong advisory group composed of individuals from the private sector who have no vested interest in the program, who would become a catalyst for creative and meaningful program delivery.

Thank you for the opportunity to speak with you on this issue.

Senator BOSCHWITZ. Well, I like your testimony very much and I hope that Mr. Schaffer, who I see is still here, will pay some attention to it.

Mr. SCHAFFER. Senator, I'm not marking time until retirement.

Senator BOSCHWITZ. I understand, but I certainly agree with the whole involvement of the private sector in small business development, I mean, for all the obvious reasons. And I would hope that Ms. Bystrom's suggestions about an advisory group with the private sector who have no vested interest in the program who would become a catalyst to a creative meaningful program. And I think that's a very good idea and I hope that something like that can come about.

And I might say that certain strength and confidence that I would have in how it is being administered and delivered in the State. And I agree that St. Thomas had the most creative environment and I was disappointed too, Monsignor over there, if Monsignor Murphy decided to go into business probably would have made all of us look like fools. He's a very aggressive and creative guy and has moved that university along. And certainly everything associated with it has a breath of the energy that he brings to the whole business of education. So I must tell you that I agree very much with Ms. Bystrom's analysis and hope that my friends at the SBA will also look at this testimony carefully.

Mr. COYLE. Are there any other witnesses here who have not identified themselves but who wish to offer testimony of some sort, either verbally or in writing? Anybody else?

Senator BOSCHWITZ. Anybody else who wants to be a——

Mr. COYLE. Please feel free to step forward.

Senator BOSCHWITZ. Marcia, I appreciate all of the witnesses, and your statement here at the end. Before we have this gentleman from Polk County who introduced himself to me as I got up, I want to say to the witnesses that I appreciate it very much. I know we go to Washington and hold hearings and you get State directors who don't tell you about what's happening with the same preciseness that you have today; about the number of cases; about the—it's just interesting to get a little bit more of a grassroots feel, so to speak, than you tend to get when you stay in Washington where the witnesses are normally from large groups and where the testimony is normally drawn by some staff member of that large group. The witness arrives in Washington and they say, "Here, go and read this." And most often that's what we hear.

You said that on my way out you were an auto dealer or 11 years in Fosston?

STATEMENT OF GLEN MATSON

Mr. MATSON. Yes, sir, so I can tell you about East Polk County.

Senator BOSCHWITZ. It is a very—I know I have spoken there, as I told you, at the Chamber of Commerce and have been at the Fair, Polk County being, I think, other than St. Louis County, the only county in the state that has two fairs. And so I have been at both of those and have been in Fosston from time to time. But what do you have?

Mr. MATSON. It was an enjoyable experience. Following the sale of that I became, pardon the expression, "a damn bureaucrat" for the last 16 years I worked, 14 as the director of the U.S. Department of Commerce field office for the State of Minnesota.

Senator BOSCHWITZ. Would you please state your name for the record?

Mr. MATSON. Yes, my name is Glen Matson. Following my retirement from that position in 1983, I joined the SCORE organization and it's about that group I would like to just make a few comments today.

Senator BOSCHWITZ. Please do.

Mr. MATSON. And I apologize for being sort of an interloper here. I'm not on the list of witnesses and it doesn't bother me too much. I'd just soon not be on too many lists, but be that as it may I appreciate the chance for you and Mr. Coyle to listen.

Senator BOSCHWITZ. Being on many lists, I understand your concern.

Mr. MATSON. And I have no prepared testimony. But in Minnesota the SCORE organization numbers some 500 men and women in 6 chapters; Duluth, St. Cloud, Minneapolis, St. Paul, Rochester, and Mankato.

Just to quote some numbers for you, at the end of the first quarter of fiscal year 1989, which is December 31, our counselors had contacts with 717 business firms or people thinking about going into business. In addition our, "Going into Business" workshops had a chance to talk to an additional 606 people. So I'm talking to you about an organization that's alive, well and running. The problem we have, as you heard many times I'm sure, is budget. The total Minnesota SCORE budget for example for 500 people for a year is $28,000 which is probably not as much——

Senator BOSCHWITZ. A little high, isn't it?

Mr. MATSON [continuing]. As a janitor in Washington gets. However, we are managing to make those kinds of contacts with people. The year I chaired the Minneapolis chapter of that organization we had about 136 members. I went through and analyzed the roster. Their backgrounds came from 81 different kinds of business activity and the total experience exceeded a little over 24 hundred man years. So when—I think it was Tracy mentioned here a while ago we tried to bring a qualified person from a business to talk to a person with a problem, that's precisely what we are doing. And are pretty well able to do that with that wide variety of backgrounds that we've got.

I have a current assignment, two current assignments in the SCORE organization. One is the Minnesota District Representative which simply means I'm trying to keep these 6 chapters alive and well, plus the satellite offices that we have. I also have assignment as the International Trade Coordinator for Federal Region 5 which is, as you know, 6 states out here in the Midwest.

Senator BOSCHWITZ. Are you paid anything beyond your——

Mr. MATSON. No, sir, and I don't want to be. I'm doing just fine.

Senator BOSCHWITZ. Is anybody?

Mr. MATSON. Nobody, no. It's against the SCORE policy. We had a couple unfortunate cases here which incidentally and sadly involved SBDC's where we had to get rid of our people because they

were accepting money. And they can't do that according to the membership requirement of the SCORE organization. So we don't allow that at all. Suggestions have been made that you charge for the counseling activities within SCORE, and we circulated that suggestion. We discovered that we would have lost the membership. They said nothing doing, we were in this for personal satisfaction not for any money. And we're fortunate that the 28,000 that we got, we have a few high rollers in the organization here so that they don't submit very many vouchers for their reimbursements. The $28,000 would not cover at all even just the parking and mileage which is all we get.

Senator BOSCHWITZ. Do you consider yourself a high roller?

Mr. MATSON. No, sir, former government service a high roller? No way.

Senator BOSCHWITZ. Those 11 years in Fosston, I didn't know——

Mr. MATSON. I could role pretty high when I was up there, right. That's all the time I wanted to take of yours. SCORE is alive and well in the State of Minnesota. And if you have a few extra bucks to shove our way we sure wouldn't turn them down. If you have any questions I'd be glad to help you. I have some success stories; one appeared in the last issue of Savant and if you'd like to see this over there, sir, this is another one from Mankato, MN, which is a real interesting story. You may or may not know, Senator Boschwitz, that there are three States in Region 5 who export more than they import. Minnesota is one; Wisconsin is the other and Illinois is the third. Other than that the balance is trade on the other three States horrible on the wrong side of the ledger. Fortunately Minnesota companies have done well enough to be exporting more than they've imported. Some of the names we mentioned, some companies here and we've got two or three of them perhaps you know, that have received a President's E award for excellence in exporting, one is Little Orbits, they make the donut machines

Senator BOSCHWITZ. Little Orbits?

Mr. MATSON. Little Orbits makes the little tiny donuts like this. The President's E award for excellence in exports, the Bondhus Tool Co., in Monticello makes these little hex wrenches received the President's award for the excellent job they were doing in that. Another somewhat larger company, the Valve Co., up in Sartell, another one is a cherry picker company in Duluth, not a large firm by any means. These people have done well in export and that is one of the special programs small business administration which in practice they have turned over and scored a run really——

Senator BOSCHWITZ. Do you remember the name? It's something like Bondhus, of that fellow up in——

Ms. THRANE. I don't, I'm going to have to look it up, I don't have it either.

Senator BOSCHWITZ. It'll bother me for a while but I do at home. I thank you.

Mr. MATSON. No more information. Do you have any questions?

Senator BOSCHWITZ. No, I don't but I'm very pleased you report about the SCORE organization. I think that it's a very valuable one and I could see myself getting a great deal of savings from doing just those kinds of things and I compliment you for your leadership in that organization.

Mr. MATSON. Thank you. I'd like to introduce the alternate director, Mr. Lex Schoonover. Lex for 18 years was manager of the big Sears store out here in Brooklyn Center. That's the type of people that we have in there.

Senator BOSCHWITZ. Well, they've taken over my best shot all the time then here at Sears.

Mr. MATSON. Thank you, sir.

Senator BOSCHWITZ. Thanks very much. Well, I thank all of the witnesses for coming and again I appreciate the testimony. It's a more direct, closer to the source type of testimony than one is apt to hear in Washington. I trust that the whole business of leadership with the SBDC Program in the State will be satisfactorily resolved and that if it is to be a State organization that leads it, in a few other states and I really haven't made a comparison or study of how operations in other states as opposed to operating within the university system, particularly a private university system. But we urge the State to be aggressive in seeking a new leader and to find someone who's not going to fit within just a bureaucratic framework but to find someone who will have the sense of small business; have a sense of what needs to be done and will be able to move not only the organization but all of its numerous satellites forward. So I appreciate all of you coming and attending. Thanks to the witnesses. This hearing stands adjourned.

[Whereupon, at 4 p.m., the hearing was concluded.]

APPENDIX

MOORHEAD
STATE UNIVERSITY

Moorhead, Minnesota 56560

TO: Senator Rudy Boschwitz
Ranking Minority Member
Committee on Small Business
United States Senate

March 13, 1989

FROM: Dr. David C. Nelson, Dean
Business, Industry and Applied Programs
Moorhead State University
Moorhead, Minnesota 56560

SUBJECT: Field Hearing, Minnesota Small Business Development Center Program and Cooperative Agreement, Minneapolis, Minnesota, March 13, 1989.

My name is David C. Nelson. I am the Dean of Business, Industry and Applied Programs at Moorhead State University at Moorhead, Minnesota. I have held that position since July, 1975.

Moorhead State University has been involved in small business assistance almost since the time that I became dean in 1975. In the beginning, our program was solely through the use of student teams assigned to analyze the problems and develop solutions. This was and still is known as the Small Business Institute. This program is administered directly to MSU from the Small Business Administration in Minneapolis. The funding is small but it enables us to provide very valuable experience for approximately 125-150 senior students per year. The MSU SBI program now involves students and faculty in 40 to 50 cases (they are "real world" problems being experienced by "real world" small businesses) per year (we are only funded to support 20-25 of these cases per year...the remainder we do out of hide simply because the problems are there and the students are lined up to get the experience).

While this program is very effective from both a cost and problem solving point of view, the abilities of the students to tackle complex problems is limited by their academic preparation and by their experience and, therefore, the problems are at that appropriate level.

The Small Business Development Center at MSU has existed since the beginning of the program in Minnesota in 1980. During that period the MSU center has been directed by three persons, the first with academic preparation and experience in finance and the subsequent two with academic preparation and experience in accounting (the latter two both held the doctorate degree). All three have maintained a part time teaching assignment, something which as a dean I feel is not only appropriate but important (the SBA does not necessarily share that view) because the continuing experiences of

Moorhead State University is an equal opportunity employer/educator

the director are immediately available to students through effective illustrations of textbook material.

During this period, the MSU SBDC has expanded its services dramatically. The budget has increased from $39,200 in 1980-81 to $240,000 for the current period. In the beginning the entire budget came from SBA, but it now comes from several sources which speaks on behalf of the reputation it has developed (only $102,000 comes from SBA). Even with this dramatic increase in the budget, the demand for the services of this SBDC consistently is greater than the availability of resources to provide those services.

During the first year the center had 155 clients, while during 1988 there were 408 clients. A total of 2510 clients has been served by this SBDC during the eight year period. In addition, the center has put on 194 workshops which have been attended by 9,459 people. All of this has been provided to the people of West Central Minnesota in generally a ten county region. While the budget has increased, the proportion of that budget devoted to actually providing service to small business clients has remained high. Our estimate is that between 15-20 percent of the budget actually is spent on overhead, e.g., secretarial salaries, equipment, some portion of the director's salary, etc. We have worked hard at keeping that percentage at a minimum. It helps that space and support services (accounting, maintenance, utilities, etc.) are provided free by the University. Were we not located on campus, these costs would be borne by the budget and less would then be available for services to clients (some people believe that services are better if the physical facilities are not on campus...there are costs associated with that configuration which those people are not concerned with, e.g., rent, utilities, etc.). One can imagine that as budgets shrink (absolutely and relatively), more must be devoted to overhead and therefore less to actual services. Obviously, this becomes a problem where the "state" budget is relatively static and SBDC satellites are added at much too rapid rates. The Minnesota SBDC program has far, far too many satellites, many of which in my judgement are not capable of addressing the kinds of problems now faced by small businesses.

In the beginning years the services we provided were short term in nature. There was not much in-depth analysis and counseling. That has now changed. Most of our counseling is now in-depth so that, while we now serve far more clients, we also serve each client longer and thus the number of hours we provide has increased even more dramatically than the number of clients. Thus, it is likely the case that the demand for service in terms of hours has increased even more than the mere increase in the number of clients would indicate. The kinds of services we now provide have changed in such a way that it is more difficult to provide those services, i.e., consultants need to be much better prepared in more sophisticated ways. For example, we believe that we now devote about 20 percent of our resources to the broad problem of technology transfer. There appears to be a steady increase in small manufacturing in rural West Central Minnesota. Where there is demand from this sector of the economy we cannot ignore it, but it is important

to note that attention to that sector thus decreases the quantity of resources which can be devoted to the retail and the service sectors. The addition of the Business Innovation Center Program of the Greater Minnesota Corporation will significantly help resolve that problem...particularly where we can define some sort of "marriage" between that program and the SBDC program (one could certainly argue that there is some good sense in maintaining a common management of the two programs...at least from this perspective). But the Catch-22 still exists for the SBDC program. Further illustrations of the ways in which our services have expanded and have become more sophisticated are as fol|ows: In the field of marketing we are now asked and it is necessary to provide secondary information from computerized data base services. We have difficulty providing many of our services without this data. We are more involved in market strategy and market analysis. The demand for these services has grown such that we now employ a full time person who does almost nothing but this. We have continually provided in-service opportunities for her such that we could not now find someone who possesses the expertise that she does. In addition, we are now asked to provide consulting on in-depth channel design. Needless to say, the process of assembly and distribution is increasingly more complicated and small business people are stunned by these problems. In the area of finance we find that we must be capable of developing business plans before we can even consider the complicated process of assisting in the process of loan packaging. Bankers these days won't even look at considering a loan without this background and small business managers are not capable of developing the plans and the packages without assistance of some kind, most of which they cannot afford. We have grown from providing assistance in the development of bookkeeping systems to full flown accounting systems. We provide consulting in defining the structure of public and private financing for business deals. Increasingly this brokerage function is our responsibility. And, if that were not enough, we are increasingly being asked by banks to perform analyses and to assist troubled businesses. The third area that we more and more active in is international trade. It is surprising the degree to which businesses in rural Minnesota are asking for this assistance and we are being asked to provide that assistance. That we means that we must find the resources and the expertise to sponsor effective workshops and to then perform the in-depth counseling that naturally follows if our workshops are good. Our counseling has and will provide assistance in both entering the export markets but also for those contemplating or being forced to expand activity in export markets.

All of this of course has been exciting to watch grow and expand. While a state institution such as MSU has long been involved in economic development by providing the human capital needed, we have not always had the opportunity to assist in other ways. Far too much of that human capital is exported to other states or regions. More investment in assistance to businesses modeled after the assistance programs to agriculture (agricultural experiment stations and extension services) would probably go a long way toward providing opportunities for that human capital to remain in

Northwest and West Central Minnesota. The hub and spoke model so eloquently spelled out in the Stanford Research Institute-International report entitled "Making the R&D--Job-Creation Connection: An Agenda for the Greater Minnesota Corporation", August 1988, seems to me is right on the mark. It is a report that needs to be read by anyone in Minnesota who pretends some participation in the economic development process. I am amazed when I hear someone say that the role of the GMC is "applied research"...it is immediately obvious to me that they have not read this report or they did not understand it (I prefer to presume the first conclusion). There are five program areas which will be funded and actively pursued, applied research being but one of those five areas (the others are business innovation centers, regional seed capital programs, advanced manufacturing technology centers and a strategic research grant program). Even a casual reading of this document would immediately reveal the logical relationship between this development path and the Small Business Development Center Program. In fact there are several references to the SBDC program in this document.

The needs of the Minnesota Small Business Development program are many. Obviously, more resources need to be added to those programs which have a proven track record of performance (not all do). But probably what is needed now more than ever is the guarantee of a long term dedicated administration of the program. Since the inception of this program, the leadership of the program has been vested in five agencies or institutions. This must stop! While there certainly is a role for political institutions to play in economic development (primarily facilitative), this is not one of them. This is a delivery of services program and it cannot afford anymore "politics" than already exists. It needs to be managed by an institution which can promise and guarantee stability in leadership and will allow the primary institutions (the eight or nine state universities and others) to participate in the policy management of the program. Unilateral management and decision making have again and again proven to be the downfall and ultimately the problem in the administration of the program. Personally, as an outsider and a non-political expert, I am nervous that the leadership is intended to be vested in an agency of the State of Minnesota whose primary mission it seems to me is facilitate the providing of services by service agencies, not to take on the task of providing those services. Where many of the "jobs" in such an agency are by political appointment, it seems to me that the needed stability and independent goal setting is diminished by definition. It should be remembered that the Minnesota SBDC had its "start" in an economic development agency (headed by Mr. Kent Ecklund). The difficulty of that approach was recognized then and I am not sure why it should be any different now. If the Greater Minnesota Corporation is truly independent of Minnesota political institutions (as I believe was intended by the legislation), then there is a great deal of logic to be said for maintaining the leadership of the SBDC program in that organization. On the other hand, one could argue that the University of Minnesota agricultural extension service which has some experience in the "hub and spoke" concept might be a logical home. Or one

could argue that the State University System as an organization (as opposed to one of the member schools) could logically take this function over. After all, most of the SBDC activity is now housed in SUS institutions. In both of the latter cases stability and proven leadership are available.

Whatever is ultimately done, I hope that the needs of small businesses and how assistance to that sector can enhance rural economic development is the primary objective. It can be a very effective system. Do not allow it to be caught up in the political struggles of individuals or the needs of agencies to claim programs.

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